

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

Regular Committee Meeting

August 22, 2006

10:00 AM - 12:00 PM
House Hearing Room A
Olympia

AGENDA

- 10:00 AM **(1) Approval of Minutes**
- 10:05 AM **(2) Gain-sharing-** Robert Wm. Baker, Senior Research Analyst
- Trade-off (SB 6795/HB 3183)
 - Rule of 90 (SB 6445/HB 2679)
- Public Testimony*
- NOON **(3) Adjourn**

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

***Representative Bill Fromhold,**
Vice-Chair

Leland A. Goeke
TRS and SERS Employers

Robert Keller
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

***Glenn Olson**
PERS Employers

***Senator Craig Pridemore,**
Chair

Diane Rae
TRS Actives

***J. Pat Thompson**
PERS Actives

Senator Mark Schoesler

David Westberg
SERS Actives

*** Executive Committee**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 786-6140. TDD 1-800-635-9993.

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Fax: (360) 586-8135
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| JANUARY | | | | | | |
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| JUNE | | | | | | |
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| AUGUST | | | | | | |
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| DECEMBER | | | | | | |
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Select Committee on Pension Policy

2006 Meeting Dates

Full - 10:00 am – 12:00 pm
Executive - 12:30 – 2:30 pm
JLOB, Olympia, WA 98504

January 17, 2006 – *meeting cancelled*
February 21, 2006
March 21, 2006
April 18, 2006 – *meeting cancelled*
May 16, 2006
June 20, 2006
July 18, 2006
August 22, 2006
September 19, 2006
October 17, 2006
November 21, 2006
December 12, 2006

Plan 1 Funding Method
Reserved Subgroup Dates
Location to be determined
2:00 – 4:00 pm – Mondays

April 17, 2006
May 15, 2006
June 19, 2006
July 17, 2006
August 21, 2006 – Scheduled HHR C
September 18, 2006 – Scheduled HHR C
October 17, 2006
November 20, 2006
December 11, 2006

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Select Committee on Pension Policy

Goals for Washington State Public Pensions

Revised and Adopted September 27, 2005

1. Contribution Rate Setting: To establish and maintain adequate, predictable and stable contribution rates, with equal cost-sharing by employers and employees in the Plans 2, so as to assure the long-term financial soundness of the retirement systems.
2. Balanced Long-Term Management: To manage the state retirement systems in such a way as to create stability, competitiveness, and adaptability in Washington's public pension plans, with responsiveness to human resource policies for recruiting and retaining a quality public workforce.
3. Retirement Eligibility: To establish a normal retirement age for members currently in the Plans 2/3 of PERS, SERS, and TRS that balances employer and employee needs, affordability, flexibility, and the value of the retirement benefit over time.
4. Purchasing Power: To increase and maintain the purchasing power of retiree benefits in the Plans 1 of PERS and TRS, to the extent feasible, while providing long-term benefit security to retirees.
5. Consistency with the Statutory Goals within the Actuarial Funding Chapter: To be consistent with the goals outlined in the RCW 41.45.010:
 - a. to provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;
 - b. to continue to fully fund the retirement system plans 2 and 3, and the Washington State Patrol Retirement System, as provided by law;
 - c. to fully amortize the total costs of PERS 1, TRS 1 and LEOFF 1, not later than June 30, 2024;
 - d. to establish predictable long-term employer contribution rates which will remain a relatively predictable portion of future state budgets; and
 - e. to fund, to the extent feasible, benefit increases over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

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REGULAR COMMITTEE MEETING DRAFT MINUTES

July 18, 2006

The Select Committee on Pension Policy met in House Hearing Room A, Olympia, Washington on July 18, 2006.

Committee members attending:

| | |
|-------------------------------------|-------------------|
| Senator Pridemore, Chair | Robert Keller |
| Representative Fromhold, Vice-Chair | Sandy Matheson |
| Elaine Banks | Corky Mattingly |
| Representative Bailey | Doug Miller |
| Lois Clement | Senator Mulliken |
| Representative Conway | Senator Schoesler |
| Representative Crouse | J. Pat Thompson |
| Leland Goeke | David Westberg |

Senator Pridemore, Chair, called the meeting to order at 10:05 a.m.

(1) Approval of Minutes

It was moved to approve the June 20, 2006, Regular Committee Draft Minutes. Seconded.

MOTION CARRIED

(2) Post-Retirement Employment

Laura Harper, Senior Research Analyst, Legal, reported on "Post-Retirement Employment." Discussion followed.

The following people testified:

Eva Santos, Director, Department of Personnel

Don Carlson, citizen

John Kvamme, Washington Association of School Administrators/
Association of Washington School Principals

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

Senator Karen Fraser

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(3) Plan 1 Funding Method

Matt Smith, State Actuary, reported on the "Plan 1 Funding Method."
Discussion followed.

The following person testified:

Cassandra de la Rosa, Retired Public Employees Council

(4) Gain-Sharing

Robert Baker, Senior Research Analyst, reported on "Gain-Sharing."

The following people testified:

Eric Towers, Evergreen Education Association/Washington Education Association

Dave Scott, Washington Education Association

Kathy Vallentine, Washington Education Association - Retired

Michael Coleman, Washington Education Association -Retired

Leslie Main, Washington State School Retirees' Association

John Kvamme, Washington Association of School Administrators/

Association of Washington School Principals

Cassandra de la Rosa, Retired Public Employees Council

Tom Lopp, Public School Employees

Tim Scott, Sumner Education Association

Don Carlson, citizen

The meeting adjourned at 12:47 p.m.

The Select Committee on Pension Policy



Gain-Sharing

Robert Wm. Baker, Senior Research Analyst

August 22, 2006



2005 SCPP Policy Direction

- Repeal and replace
 - Replace with benefits about half the value of future gain-sharing liabilities
 - Rule-of-90, Age 66 COLA, \$1,000 Minimum Benefit as stand-alone proposals
- Include Plan 2
 - Reasons for excluding from gain-sharing re-considered



SCPP Gain-Sharing Trade-Off Proposal

- Repeal Plan 1 and Plan 3 gain-sharing
- Repeal Plan 3 member rate flexibility
- 24¢ increase in Uniform COLA
- Plan 2/3 choice for TRS and SERS new hires
- Plan 2 transfer window for those mandated into TRS 3 and SERS 3 (optional)
- Plan 2 value guarantee for eligible Plan 3 members (prospective & optional)



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Proposal to Include Plan 2 Members

- Full Rule-of-90 for Plans 2/3
 - Members would be eligible for an unreduced benefit when age and years of service sum to 90
 - All service (not prospective only)
 - No minimum age requirement



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Employer Contribution Rate Increases

| | PERS | TRS | SERS |
|---------------------|-------|-------|-------|
| Gain-sharing | 0.71% | 2.18% | 2.55% |
| Trade-off | 0.39% | 0.95% | 1.09% |
| Rule-of-90 | 0.73% | 1.00% | 0.57% |

Source: HB 3183 and SB 6445 fiscal notes - 2006 legislative session.



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25-Year Total Employer Cost by System

(Dollars in Millions)

| | PERS | TRS | SERS | Total |
|----------------------|-----------|-----------|-----------|-----------|
| Gain-sharing* | \$2,368.2 | \$3,375.9 | \$2,096.9 | \$7,841.0 |
| Trade-off | \$690.1 | \$1,037.5 | \$322.9 | \$2,050.5 |
| Rule-of-90 | \$1,540.9 | \$1,423.2 | \$232.3 | \$3,196.4 |

* Includes projected new entrants.

Source: HB 3183 and SB 6445 fiscal notes – 2006 legislative session.

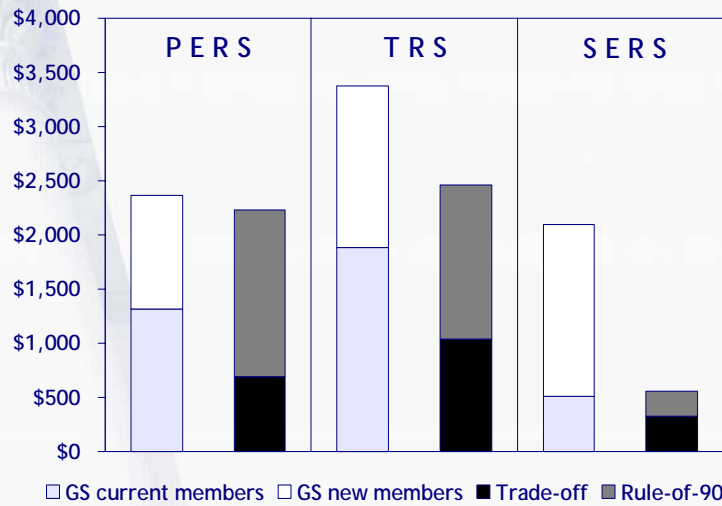


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25-Year Total Employer Cost by System

(Dollars in Millions)



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Next Steps

- Scheduled for October meeting



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Select Committee on Pension Policy

Alternative Gain-Sharing Proposal

(January 9, 2006)

Plan 1 Trade-off

Plan 1 gain-sharing would be repealed and replaced with a .24 cent increase in the Annual Increase Amount used in calculating members' Uniform COLA. On July 1, 2007, the annual increase amount would be \$1.57 instead of the scheduled \$1.33. As a result, an eligible Plan 1 member with 30 years of service would receive an annual increase of \$565.20 instead of \$478.80. Since the .24 cent adjustment is permanent, the subsequent adjustments are greater as well – in 2008 the Annual Increase Amount would be \$1.62 instead of \$1.37; an eligible retiree with 30 years of service would receive an annual increase of \$583.20 on top of the year-earlier amount.

Plan 3 Trade-off

Under this alternative proposal, Plan 3 gain-sharing and Plan 3 contribution rate annual choice would be repealed and replaced with the following:

- Plan 2/3 choice for new members of TRS and SERS.
- An optional 2 percent Plan 3 defined benefit (DB) accrual with a defined contribution (DC) annuity off-set (prospective). This would be for members of TRS, SERS, and PERS who opted to switch to Plan 3 and for PERS members who chose PERS 3 upon employment. Members must have been continuously employed since joining Plan 3 and must have joined Plan 3 prior to the effective date of this act.
- A one-time and prospective Plan 3 to Plan 2 transfer window for TRS and SERS members who were mandated into Plan 3.

Technical Sections

- RCW 41.45.061 *Contribution rates for Plan 2 members* clean-up section.
- RCW 41.45.070 *Supplemental rate* section amended so no supplemental rate would result from this act until July 1, 2007.
- RCW 41.45.054 *Contribution rates -- Applicable dates* section decodified.

- Temporary non-contractual rights section.
- Effective date section – July 1, 2007.

Two-Percent Defined Benefit with Annuity Off-Set

Under this proposal, eligible Plan 3 members could choose a prospective 2 percent DB option which would be off-set by an annuity “purchased” by the member’s DC at retirement. This is, in essence, an employer-backed guarantee that the value of the member’s retirement benefit will be at least 2 percent of the member’s average final compensation (AFC) times the member’s years of service – the equivalent of a Plan 2 defined benefit. The off-set from the DC account would be no more than 1 percent. Members would need ten years of prospective service; or five years, including 12 service-credit months after attaining age 54, to be vested in this benefit.

Members eligible to participate in the 2 percent DB with annuity off-set would be required to invest specified minimum amounts in the Washington State Investment Board, Commingled Trust Fund. Members could also invest additional Plan 3 amounts in other higher or lower risk portfolios, at their choosing.

Members would not be required to take their DC retirement benefits in the form of an annuity. All the distribution options available to other Plan 3 members would still be available to members electing this option.

Two-Percent DB with Annuity Off-Set Examples

The following examples of an annuity off-set DB are based on a member who is age 45 on the effective date of the act and who retires at age 65 with an AFC of \$5,000 per month. The member would have 20 years of prospective service and would meet the eligibility provisions qualifying them for a prospective employer-provided benefit equal to 40 percent of AFC or \$2,000/month before off-set. This example assumes that significant down-market experience during the member’s service may result in a lower DC balance.

| Two-Percent Defined Benefit with Annuity Off-Set Examples | | |
|---|-----------------|----------------|
| | High DC Balance | Low DC Balance |
| Employee DC contribution plus earnings | \$158,400 | \$129,600 |
| Balance required for 1% annuity | \$144,000 | \$144,000 |
| Monthly annuity from DC | \$1,100 | \$900 |
| Employer provided monthly annuity | \$1,000 | \$1,100 |
| Total monthly benefit * | \$2,100 | \$2,000 |
| Employee DC surplus (deficit) * | \$14,400 | (\$14,400) |

* Annuity payout of DC account is not required.

SENATE BILL 6795

State of Washington

59th Legislature

2006 Regular Session

By Senator Fraser; by request of Select Committee on Pension Policy

Read first time . Referred to .

1 AN ACT Relating to public pensions that replaces gain-sharing
2 provisions with certain changes in benefits for the teachers'
3 retirement system, the school employees' retirement system, and the
4 public employees' retirement system; amending RCW 41.32.835, 41.32.840,
5 41.34.040, 41.34.040, 41.34.060, 41.34.110, 41.35.610, 41.35.620,
6 41.40.010, 41.40.790, 41.45.061, and 41.45.070; reenacting and amending
7 RCW 41.32.010; adding new sections to chapter 41.32 RCW; adding new
8 sections to chapter 41.35 RCW; adding a new section to chapter 41.40
9 RCW; creating new sections; repealing RCW 41.31.010, 41.31.020,
10 41.31.030, 41.31A.010, 41.31A.020, 41.31A.030, and 41.31A.040; and
11 providing effective dates.

12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

13 **Sec. 1.** RCW 41.32.010 and 2005 c 131 s 8 and 2005 c 23 s 1 are
14 each reenacted and amended to read as follows:

15 As used in this chapter, unless a different meaning is plainly
16 required by the context:

17 (1)(a) "Accumulated contributions" for plan 1 members, means the
18 sum of all regular annuity contributions and, except for the purpose of

1 withdrawal at the time of retirement, any amount paid under RCW
2 41.50.165(2) with regular interest thereon.

3 (b) "Accumulated contributions" for plan 2 members, means the sum
4 of all contributions standing to the credit of a member in the member's
5 individual account, including any amount paid under RCW 41.50.165(2),
6 together with the regular interest thereon.

7 (2) "Actuarial equivalent" means a benefit of equal value when
8 computed upon the basis of such mortality tables and regulations as
9 shall be adopted by the director and regular interest.

10 (3) "Annuity" means the moneys payable per year during life by
11 reason of accumulated contributions of a member.

12 (4) "Member reserve" means the fund in which all of the accumulated
13 contributions of members are held.

14 (5)(a) "Beneficiary" for plan 1 members, means any person in
15 receipt of a retirement allowance or other benefit provided by this
16 chapter.

17 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
18 in receipt of a retirement allowance or other benefit provided by this
19 chapter resulting from service rendered to an employer by another
20 person.

21 (6) "Contract" means any agreement for service and compensation
22 between a member and an employer.

23 (7) "Creditable service" means membership service plus prior
24 service for which credit is allowable. This subsection shall apply
25 only to plan 1 members.

26 (8) "Dependent" means receiving one-half or more of support from a
27 member.

28 (9) "Disability allowance" means monthly payments during
29 disability. This subsection shall apply only to plan 1 members.

30 (10)(a) "Earnable compensation" for plan 1 members, means:

31 (i) All salaries and wages paid by an employer to an employee
32 member of the retirement system for personal services rendered during
33 a fiscal year. In all cases where compensation includes maintenance
34 the employer shall fix the value of that part of the compensation not
35 paid in money.

36 (ii) For an employee member of the retirement system teaching in an
37 extended school year program, two consecutive extended school years, as

1 defined by the employer school district, may be used as the annual
2 period for determining earnable compensation in lieu of the two fiscal
3 years.

4 (iii) "Earnable compensation" for plan 1 members also includes the
5 following actual or imputed payments, which are not paid for personal
6 services:

7 (A) Retroactive payments to an individual by an employer on
8 reinstatement of the employee in a position, or payments by an employer
9 to an individual in lieu of reinstatement in a position which are
10 awarded or granted as the equivalent of the salary or wages which the
11 individual would have earned during a payroll period shall be
12 considered earnable compensation and the individual shall receive the
13 equivalent service credit.

14 (B) If a leave of absence, without pay, is taken by a member for
15 the purpose of serving as a member of the state legislature, and such
16 member has served in the legislature five or more years, the salary
17 which would have been received for the position from which the leave of
18 absence was taken shall be considered as compensation earnable if the
19 employee's contribution thereon is paid by the employee. In addition,
20 where a member has been a member of the state legislature for five or
21 more years, earnable compensation for the member's two highest
22 compensated consecutive years of service shall include a sum not to
23 exceed thirty-six hundred dollars for each of such two consecutive
24 years, regardless of whether or not legislative service was rendered
25 during those two years.

26 (iv) For members employed less than full time under written
27 contract with a school district, or community college district, in an
28 instructional position, for which the member receives service credit of
29 less than one year in all of the years used to determine the earnable
30 compensation used for computing benefits due under RCW 41.32.497,
31 41.32.498, and 41.32.520, the member may elect to have earnable
32 compensation defined as provided in RCW 41.32.345. For the purposes of
33 this subsection, the term "instructional position" means a position in
34 which more than seventy-five percent of the member's time is spent as
35 a classroom instructor (including office hours), a librarian, a
36 psychologist, a social worker, a nurse, a physical therapist, an
37 occupational therapist, a speech language pathologist or audiologist,
38 or a counselor. Earnable compensation shall be so defined only for the

1 purpose of the calculation of retirement benefits and only as necessary
2 to insure that members who receive fractional service credit under RCW
3 41.32.270 receive benefits proportional to those received by members
4 who have received full-time service credit.

5 (v) "Earnable compensation" does not include:

6 (A) Remuneration for unused sick leave authorized under RCW
7 41.04.340, 28A.400.210, or 28A.310.490;

8 (B) Remuneration for unused annual leave in excess of thirty days
9 as authorized by RCW 43.01.044 and 43.01.041.

10 (b) "Earnable compensation" for plan 2 and plan 3 members, means
11 salaries or wages earned by a member during a payroll period for
12 personal services, including overtime payments, and shall include wages
13 and salaries deferred under provisions established pursuant to sections
14 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
15 shall exclude lump sum payments for deferred annual sick leave, unused
16 accumulated vacation, unused accumulated annual leave, or any form of
17 severance pay.

18 "Earnable compensation" for plan 2 and plan 3 members also includes
19 the following actual or imputed payments which, except in the case of
20 (b)(ii)(B) of this subsection, are not paid for personal services:

21 (i) Retroactive payments to an individual by an employer on
22 reinstatement of the employee in a position or payments by an employer
23 to an individual in lieu of reinstatement in a position which are
24 awarded or granted as the equivalent of the salary or wages which the
25 individual would have earned during a payroll period shall be
26 considered earnable compensation, to the extent provided above, and the
27 individual shall receive the equivalent service credit.

28 (ii) In any year in which a member serves in the legislature the
29 member shall have the option of having such member's earnable
30 compensation be the greater of:

31 (A) The earnable compensation the member would have received had
32 such member not served in the legislature; or

33 (B) Such member's actual earnable compensation received for
34 teaching and legislative service combined. Any additional
35 contributions to the retirement system required because compensation
36 earnable under (b)(ii)(A) of this subsection is greater than
37 compensation earnable under (b)(ii)(B) of this subsection shall be paid
38 by the member for both member and employer contributions.

1 (11) "Employer" means the state of Washington, the school district,
2 or any agency of the state of Washington by which the member is paid.

3 (12) "Fiscal year" means a year which begins July 1st and ends June
4 30th of the following year.

5 (13) "Former state fund" means the state retirement fund in
6 operation for teachers under chapter 187, Laws of 1923, as amended.

7 (14) "Local fund" means any of the local retirement funds for
8 teachers operated in any school district in accordance with the
9 provisions of chapter 163, Laws of 1917 as amended.

10 (15) "Member" means any teacher included in the membership of the
11 retirement system who has not been removed from membership under RCW
12 41.32.878 or 41.32.768. Also, any other employee of the public schools
13 who, on July 1, 1947, had not elected to be exempt from membership and
14 who, prior to that date, had by an authorized payroll deduction,
15 contributed to the member reserve.

16 (16) "Membership service" means service rendered subsequent to the
17 first day of eligibility of a person to membership in the retirement
18 system: PROVIDED, That where a member is employed by two or more
19 employers the individual shall receive no more than one service credit
20 month during any calendar month in which multiple service is rendered.
21 The provisions of this subsection shall apply only to plan 1 members.

22 (17) "Pension" means the moneys payable per year during life from
23 the pension reserve.

24 (18) "Pension reserve" is a fund in which shall be accumulated an
25 actuarial reserve adequate to meet present and future pension
26 liabilities of the system and from which all pension obligations are to
27 be paid.

28 (19) "Prior service" means service rendered prior to the first date
29 of eligibility to membership in the retirement system for which credit
30 is allowable. The provisions of this subsection shall apply only to
31 plan 1 members.

32 (20) "Prior service contributions" means contributions made by a
33 member to secure credit for prior service. The provisions of this
34 subsection shall apply only to plan 1 members.

35 (21) "Public school" means any institution or activity operated by
36 the state of Washington or any instrumentality or political subdivision
37 thereof employing teachers, except the University of Washington and
38 Washington State University.

1 (22) "Regular contributions" means the amounts required to be
2 deducted from the compensation of a member and credited to the member's
3 individual account in the member reserve. This subsection shall apply
4 only to plan 1 members.

5 (23) "Regular interest" means such rate as the director may
6 determine.

7 (24)(a) "Retirement allowance" for plan 1 members, means monthly
8 payments based on the sum of annuity and pension, or any optional
9 benefits payable in lieu thereof.

10 (b) "Retirement allowance" for plan 2 and plan 3 members, means
11 monthly payments to a retiree or beneficiary as provided in this
12 chapter.

13 (25) "Retirement system" means the Washington state teachers'
14 retirement system.

15 (26)(a) "Service" for plan 1 members means the time during which a
16 member has been employed by an employer for compensation.

17 (i) If a member is employed by two or more employers the individual
18 shall receive no more than one service credit month during any calendar
19 month in which multiple service is rendered.

20 (ii) As authorized by RCW 28A.400.300, up to forty-five days of
21 sick leave may be creditable as service solely for the purpose of
22 determining eligibility to retire under RCW 41.32.470.

23 (iii) As authorized in RCW 41.32.065, service earned in an out-of-
24 state retirement system that covers teachers in public schools may be
25 applied solely for the purpose of determining eligibility to retire
26 under RCW 41.32.470.

27 (b) "Service" for plan 2 and plan 3 members, means periods of
28 employment by a member for one or more employers for which earnable
29 compensation is earned subject to the following conditions:

30 (i) A member employed in an eligible position or as a substitute
31 shall receive one service credit month for each month of September
32 through August of the following year if he or she earns earnable
33 compensation for eight hundred ten or more hours during that period and
34 is employed during nine of those months, except that a member may not
35 receive credit for any period prior to the member's employment in an
36 eligible position except as provided in RCW 41.32.812 and 41.50.132;

37 (ii) If a member is employed either in an eligible position or as
38 a substitute teacher for nine months of the twelve month period between

1 September through August of the following year but earns earnable
2 compensation for less than eight hundred ten hours but for at least six
3 hundred thirty hours, he or she will receive one-half of a service
4 credit month for each month of the twelve month period;

5 (iii) All other members in an eligible position or as a substitute
6 teacher shall receive service credit as follows:

7 (A) A service credit month is earned in those calendar months where
8 earnable compensation is earned for ninety or more hours;

9 (B) A half-service credit month is earned in those calendar months
10 where earnable compensation is earned for at least seventy hours but
11 less than ninety hours; and

12 (C) A quarter-service credit month is earned in those calendar
13 months where earnable compensation is earned for less than seventy
14 hours.

15 (iv) Any person who is a member of the teachers' retirement system
16 and who is elected or appointed to a state elective position may
17 continue to be a member of the retirement system and continue to
18 receive a service credit month for each of the months in a state
19 elective position by making the required member contributions.

20 (v) When an individual is employed by two or more employers the
21 individual shall only receive one month's service credit during any
22 calendar month in which multiple service for ninety or more hours is
23 rendered.

24 (vi) As authorized by RCW 28A.400.300, up to forty-five days of
25 sick leave may be creditable as service solely for the purpose of
26 determining eligibility to retire under RCW 41.32.470. For purposes of
27 plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal
28 to two service credit months. Use of less than forty-five days of sick
29 leave is creditable as allowed under this subsection as follows:

30 (A) Less than eleven days equals one-quarter service credit month;

31 (B) Eleven or more days but less than twenty-two days equals one-
32 half service credit month;

33 (C) Twenty-two days equals one service credit month;

34 (D) More than twenty-two days but less than thirty-three days
35 equals one and one-quarter service credit month;

36 (E) Thirty-three or more days but less than forty-five days equals
37 one and one-half service credit month.

1 (vii) As authorized in RCW 41.32.065, service earned in an out-of-
2 state retirement system that covers teachers in public schools may be
3 applied solely for the purpose of determining eligibility to retire
4 under RCW 41.32.470.

5 (viii) The department shall adopt rules implementing this
6 subsection.

7 (27) "Service credit year" means an accumulation of months of
8 service credit which is equal to one when divided by twelve.

9 (28) "Service credit month" means a full service credit month or an
10 accumulation of partial service credit months that are equal to one.

11 (29) "Teacher" means any person qualified to teach who is engaged
12 by a public school in an instructional, administrative, or supervisory
13 capacity. The term includes state, educational service district, and
14 school district superintendents and their assistants and all employees
15 certificated by the superintendent of public instruction; and in
16 addition thereto any full time school doctor who is employed by a
17 public school and renders service of an instructional or educational
18 nature.

19 (30) "Average final compensation" for plan 2 and plan 3 members,
20 means the member's average earnable compensation of the highest
21 consecutive sixty service credit months prior to such member's
22 retirement, termination, or death. Periods constituting authorized
23 leaves of absence may not be used in the calculation of average final
24 compensation except under RCW 41.32.810(2).

25 (31) "Retiree" means any person who has begun accruing a retirement
26 allowance or other benefit provided by this chapter resulting from
27 service rendered to an employer while a member.

28 (32) "Department" means the department of retirement systems
29 created in chapter 41.50 RCW.

30 (33) "Director" means the director of the department.

31 (34) "State elective position" means any position held by any
32 person elected or appointed to statewide office or elected or appointed
33 as a member of the legislature.

34 (35) "State actuary" or "actuary" means the person appointed
35 pursuant to RCW 44.44.010(2).

36 (36) "Substitute teacher" means:

37 (a) A teacher who is hired by an employer to work as a temporary

1 teacher, except for teachers who are annual contract employees of an
2 employer and are guaranteed a minimum number of hours; or

3 (b) Teachers who either (i) work in ineligible positions for more
4 than one employer or (ii) work in an ineligible position or positions
5 together with an eligible position.

6 (37)(a) "Eligible position" for plan 2 members from June 7, 1990,
7 through September 1, 1991, means a position which normally requires two
8 or more uninterrupted months of creditable service during September
9 through August of the following year.

10 (b) "Eligible position" for plan 2 and plan 3 on and after
11 September 1, 1991, means a position that, as defined by the employer,
12 normally requires five or more months of at least seventy hours of
13 earnable compensation during September through August of the following
14 year.

15 (c) For purposes of this chapter an employer shall not define
16 "position" in such a manner that an employee's monthly work for that
17 employer is divided into more than one position.

18 (d) The elected position of the superintendent of public
19 instruction is an eligible position.

20 (38) "Plan 1" means the teachers' retirement system, plan 1
21 providing the benefits and funding provisions covering persons who
22 first became members of the system prior to October 1, 1977.

23 (39) "Plan 2" means the teachers' retirement system, plan 2
24 providing the benefits and funding provisions covering persons who
25 first became members of the system on and after October 1, 1977, and
26 prior to July 1, 1996.

27 (40) "Plan 3" means the teachers' retirement system, plan 3
28 providing the benefits and funding provisions covering persons who
29 first become members of the system on and after July 1, 1996, or who
30 transfer under RCW 41.32.817.

31 (41) "Index" means, for any calendar year, that year's annual
32 average consumer price index, Seattle, Washington area, for urban wage
33 earners and clerical workers, all items compiled by the bureau of labor
34 statistics, United States department of labor.

35 (42) "Index A" means the index for the year prior to the
36 determination of a postretirement adjustment.

37 (43) "Index B" means the index for the year prior to index A.

(44) "Index year" means the earliest calendar year in which the index is more than sixty percent of index A.

(45) "Adjustment ratio" means the value of index A divided by index B.

(46) "Annual increase" means(~~(, initially, fifty-nine)~~) one dollar and fifty-seven cents per month per year of service which amount shall be increased each July 1st by three percent, rounded to the nearest cent.

(47) "Member account" or "member's account" for purposes of plan 3 means the sum of the contributions and earnings on behalf of the member in the defined contribution portion of plan 3.

(48) "Separation from service or employment" occurs when a person has terminated all employment with an employer.

(49) "Employed" or "employee" means a person who is providing services for compensation to an employer, unless the person is free from the employer's direction and control over the performance of work. The department shall adopt rules and interpret this subsection consistent with common law.

Sec. 2. RCW 41.32.835 and 1995 c 239 s 105 are each amended to read as follows:

(1) All teachers who first become employed by an employer in an eligible position on or after ((July 1, 1996, shall be members of plan 3)) July 1, 2007, shall have a period of ninety days to make an irrevocable choice to become a member of plan 2 or plan 3. At the end of ninety days, if the member has not made a choice to become a member of plan 2, he or she becomes a member of plan 3.

(2) For administrative efficiency, until a member elects to become a member of plan 3, or becomes a member of plan 3 by default under subsection (1) of this section, the member shall be reported to the department in plan 2, with member and employer contributions. Upon becoming a member of plan 3 by election or by default, all service credit shall be transferred to the member's plan 3 defined benefit, and all employee accumulated contributions shall be transferred to the member's plan 3 defined contribution account.

Sec. 3. RCW 41.32.840 and 1996 c 39 s 4 are each amended to read as follows:

1 (1) A member of the retirement system shall receive a retirement
2 allowance equal to one percent of such member's average final
3 compensation for each service credit year.

4 (2) In lieu of the retirement allowance under subsection (1) of
5 this section, a member of the retirement system who elects to
6 participate under section 4 of this act shall receive:

7 (a) A monthly retirement allowance equal to one percent of such
8 member's average final compensation for each service credit year; and

9 (b) An additional retirement allowance equal to the excess, if any,
10 of:

11 (i) One percent of such member's average final compensation for
12 each service credit year from the date of election; over

13 (ii) The monthly annuity offset.

14 (A) The monthly annuity offset from the date of election shall be
15 the actuarial equivalent value of the member's account under chapter
16 41.34 RCW, at separation, from the minimum contributions required under
17 RCW 41.34.040 as if it were paid at normal retirement as a single-life
18 annuity with a three percent annual cost-of-living adjustment
19 commencing one year from the date of normal retirement.

20 (B) For the purposes of this subsection, "actuarial equivalent"
21 means a benefit of equal value when computed upon the basis of such
22 mortality tables and regulations as shall be adopted by the director
23 and regular interest.

24 (3) A member who elects to participate under section 4 of this act
25 must, after election, earn at least ten service credit years, or five
26 service credit years including twelve service credit months after age
27 fifty-four, to be eligible for the benefit provided in subsection
28 (2)(b) of this section.

29 (4) The retirement allowance payable under RCW 41.32.875 to a
30 member who separates after having completed at least twenty service
31 credit years shall be increased by twenty-five one-hundredths of one
32 percent, compounded for each month from the date of separation to the
33 date that the retirement allowance commences.

34 NEW SECTION. Sec. 4. A new section is added to chapter 41.32 RCW
35 under the subchapter heading "plan 3" to read as follows:

36 Beginning July 1, 2007, and through June 30, 2008, members who
37 exercised an irrevocable option to transfer to plan 3 prior to January

1 1, 2007, may make an irrevocable election, filed in writing with the
2 department, to participate in the prospective contribution and benefit
3 provisions under RCW 41.32.840(2) and 41.34.040.

4 NEW SECTION. **Sec. 5.** A new section is added to chapter 41.32 RCW
5 under the subchapter heading "plan 3" to read as follows:

6 Beginning July 1, 2007, and through June 30, 2008, a member who
7 established membership under RCW 41.32.835 may make a one-time
8 irrevocable election, filed in writing with the department, to leave
9 any service credit earned as a member of plan 3 in plan 3 and join plan
10 2. A member who makes such an election shall become a dual plan member
11 and may combine service in each plan for the purpose of determining
12 benefit eligibility. The benefits of such members shall be
13 administered in the same manner as benefits administered under the
14 provisions of chapter 41.54 RCW, with such members being treated as if
15 they were members of different systems for portability purposes. The
16 department shall adopt rules to ensure the portability of such members'
17 plan 2 and plan 3 benefits.

18 **Sec. 6.** RCW 41.34.040 and 2003 c 156 s 1 are each amended to read
19 as follows:

20 (1) A member shall contribute from his or her compensation
21 according to one of the following rate structures in addition to the
22 mandatory minimum five percent:

| | |
|------------------|--------------------------|
| <u>Option A</u> | <u>Contribution Rate</u> |
| All Ages | 0.0% fixed |
| <u>Option B</u> | |
| Up to Age 35 | 0.0% |
| Age 35 to 44 | 1.0% |
| Age 45 and above | 2.5% |
| <u>Option C</u> | |
| Up to Age 35 | 1.0% |
| Age 35 to 44 | 2.5% |
| Age 45 and above | 3.5% |
| <u>Option D</u> | |
| All Ages | 2.0% |

1 Option E

2 All Ages 5.0%

3 Option F

4 All Ages 10.0%

5 (2) The board shall have the right to offer contribution rate
6 options in addition to those listed in subsection (1) of this section,
7 provided that no significant additional administrative costs are
8 created. All options offered by the board shall conform to the
9 requirements stated in subsections (3) and (5) of this section.

10 (3)(a) For members of the teachers' retirement system entering plan
11 3 under RCW 41.32.835 or members of the school employees' retirement
12 system entering plan 3 under RCW 41.35.610, within ninety days of
13 becoming a member he or she has an option to choose one of the above
14 contribution rate structures. If the member does not select an option
15 within the ninety-day period, he or she shall be assigned option A.

16 (b) For members of the public employees' retirement system entering
17 plan 3 under RCW 41.40.785, within the ninety days described in RCW
18 41.40.785 an employee who irrevocably chooses plan 3 shall select one
19 of the above contribution rate structures. If the member does not
20 select an option within the ninety-day period, he or she shall be
21 assigned option A.

22 (c) For members of the teachers' retirement system transferring to
23 plan 3 under RCW 41.32.817, members of the school employees' retirement
24 system transferring to plan 3 under RCW 41.35.510, or members of the
25 public employees' retirement system transferring to plan 3 under RCW
26 41.40.795, upon election to plan 3 he or she must choose one of the
27 above contribution rate structures.

28 (d) Within ninety days of the date that an employee changes
29 employers, he or she has an option to choose one of the above
30 contribution rate structures. If the member does not select an option
31 within this ninety-day period, he or she shall be assigned option A.

32 (4) Each year, members may change their contribution rate option by
33 notifying their employer in writing during the month of January.

34 (5) Contributions shall begin the first day of the pay cycle in
35 which the rate option is made, or the first day of the pay cycle in
36 which the end of the ninety-day period occurs.

37 (6) A member of the teachers' retirement system who elects to

participate under section 4 of this act shall contribute a minimum of six percent of compensation which shall be directed to the Washington state investment board investment program.

(7) A member of the school employees' retirement system who elects to participate under section 12 of this act shall contribute a minimum of five percent of compensation which shall be directed to the Washington state investment board investment program.

(8) A member of the public employees' retirement system who elects to participate under section 16 of this act shall contribute a minimum of five percent of compensation which shall be directed to the Washington state investment board investment program.

Sec. 7. RCW 41.34.040 and 2006 c ... s 6 (section 6 of this act) are each amended to read as follows:

(1) A member shall contribute from his or her compensation according to one of the following rate structures in addition to the mandatory minimum five percent:

| <u>Option A</u> | <u>Contribution Rate</u> |
|------------------|--------------------------|
| All Ages | 0.0% fixed |
| <u>Option B</u> | |
| Up to Age 35 | 0.0% |
| Age 35 to 44 | 1.0% |
| Age 45 and above | 2.5% |
| <u>Option C</u> | |
| Up to Age 35 | 1.0% |
| Age 35 to 44 | 2.5% |
| Age 45 and above | 3.5% |
| <u>Option D</u> | |
| All Ages | 2.0% |
| <u>Option E</u> | |
| All Ages | 5.0% |
| <u>Option F</u> | |
| All Ages | 10.0% |

(2) The board shall have the right to offer contribution rate options in addition to those listed in subsection (1) of this section,

provided that no significant additional administrative costs are created. All options offered by the board shall conform to the requirements stated in subsections (3) and ~~((+5+))~~ (4) of this section.

(3)(a) For members of the teachers' retirement system entering plan 3 under RCW 41.32.835 or members of the school employees' retirement system entering plan 3 under RCW 41.35.610, within ninety days of becoming a member he or she has an option to choose one of the above contribution rate structures. If the member does not select an option within the ninety-day period, he or she shall be assigned option A.

(b) For members of the public employees' retirement system entering plan 3 under RCW 41.40.785, within the ninety days described in RCW 41.40.785 an employee who irrevocably chooses plan 3 shall select one of the above contribution rate structures. If the member does not select an option within the ninety-day period, he or she shall be assigned option A.

(c) For members of the teachers' retirement system transferring to plan 3 under RCW 41.32.817, members of the school employees' retirement system transferring to plan 3 under RCW 41.35.510, or members of the public employees' retirement system transferring to plan 3 under RCW 41.40.795, upon election to plan 3 he or she must choose one of the above contribution rate structures.

(d) Within ninety days of the date that an employee changes employers, he or she has an option to choose one of the above contribution rate structures. If the member does not select an option within this ninety-day period, he or she shall be assigned option A.

~~(4) ((Each year, members may change their contribution rate option by notifying their employer in writing during the month of January.~~

~~+5+))~~ Contributions shall begin the first day of the pay cycle in which the rate option is made, or the first day of the pay cycle in which the end of the ninety-day period occurs.

~~((+6+))~~ (5) A member of the teachers' retirement system who elects to participate under RCW 41.32.--- (section 4 of this act) shall contribute a minimum of six percent of compensation which shall be directed to the Washington state investment board investment program.

~~((+7+))~~ (6) A member of the school employees' retirement system who elects to participate under RCW 41.35.--- (section 12 of this act) shall contribute a minimum of five percent of compensation which shall

1 be directed to the Washington state investment board investment
2 program.

3 ((+8+)) (7) A member of the public employees' retirement system who
4 elects to participate under RCW 41.40.--- (section 16 of this act)
5 shall contribute a minimum of five percent of compensation which shall
6 be directed to the Washington state investment board investment
7 program.

8 **Sec. 8.** RCW 41.34.060 and 2001 c 180 s 2 are each amended to read
9 as follows:

10 (1) Except as provided in subsection (3) of this section, the
11 member's account shall be invested by the state investment board. In
12 order to reduce transaction costs and address liquidity issues, based
13 upon recommendations of the state investment board, the department may
14 require members to provide up to ninety days' notice prior to moving
15 funds from the state investment board portfolio to self-directed
16 investment options provided under subsection (3) of this section.

17 (a) For members of the retirement system as provided for in chapter
18 41.32 RCW of plan 3, investment shall be in the same portfolio as that
19 of the teachers' retirement system combined plan 2 and 3 fund under RCW
20 41.50.075(2).

21 (b) For members of the retirement system as provided for in chapter
22 41.35 RCW of plan 3, investment shall be in the same portfolio as that
23 of the school employees' retirement system combined plan 2 and 3 fund
24 under RCW 41.50.075(4).

25 (c) For members of the retirement system as provided for in chapter
26 41.40 RCW of plan 3, investment shall be in the same portfolio as that
27 of the public employees' retirement system combined plan 2 and 3 fund
28 under RCW 41.50.075(3).

29 (2) The state investment board shall declare monthly unit values
30 for the portfolios or funds, or portions thereof, utilized under
31 subsection (1)(a), (b), and (c) of this section. The declared values
32 shall be an approximation of portfolio or fund values, based on
33 internal procedures of the state investment board. Such declared unit
34 values and internal procedures shall be in the sole discretion of the
35 state investment board. The state investment board may delegate any of
36 the powers and duties under this subsection, including discretion,

1 pursuant to RCW 43.33A.030. Member accounts shall be credited by the
2 department with a rate of return based on changes to such unit values.

3 (3)(a) Members may elect to self-direct their investments as set
4 forth in RCW 41.34.130 and 43.33A.190.

5 (b) Members who elect to participate under sections 4, 12, and 16
6 of this act may elect to self-direct their investments for only that
7 portion of their investments related to contributions above the minimum
8 rates established under RCW 41.34.040.

9 **Sec. 9.** RCW 41.34.110 and 1996 c 39 s 12 are each amended to read
10 as follows:

11 (1) A member who separates from service and then reestablishes
12 membership may restore contributions to the member account.

13 (2) A member electing to participate under section 4, 12, or 16 of
14 this act, who separates from service and then reestablishes membership,
15 may continue to be eligible for benefits under RCW 41.32.840(2)(b),
16 41.35.620(2)(b), or 41.40.790(2)(b) by restoring all contributions to
17 the member account made after the election, plus interest as determined
18 by the director.

19 **Sec. 10.** RCW 41.35.610 and 1998 c 341 s 202 are each amended to
20 read as follows:

21 (1) All classified employees who first become employed by an
22 employer in an eligible position on or after ((September 1, 2000, shall
23 be members of plan 3)) July 1, 2007, shall have a period of ninety days
24 to make an irrevocable choice to become a member of plan 2 or plan 3.
25 At the end of ninety days, if the member has not made a choice to
26 become a member of plan 2, he or she becomes a member of plan 3.

27 (2) For administrative efficiency, until a member elects to become
28 a member of plan 3, or becomes a member of plan 3 by default under
29 subsection (1) of this section, the member shall be reported to the
30 department in plan 2, with member and employer contributions. Upon
31 becoming a member of plan 3 by election or by default, all service
32 credit shall be transferred to the member's plan 3 defined benefit, and
33 all employee accumulated contributions shall be transferred to the
34 member's plan 3 defined contribution account.

1 **Sec. 11.** RCW 41.35.620 and 1998 c 341 s 203 are each amended to
2 read as follows:

3 (1) A member of the retirement system shall receive a retirement
4 allowance equal to one percent of such member's average final
5 compensation for each service credit year.

6 (2) In lieu of the retirement allowance under subsection (1) of
7 this section, a member of the retirement system who elects to
8 participate under section 12 of this act shall receive:

9 (a) A monthly retirement allowance equal to one percent of such
10 member's average final compensation for each service credit year; and

11 (b) An additional retirement allowance equal to the excess, if any,
12 of:

13 (i) One percent of such member's average final compensation for
14 each service credit year from the date of election; over

15 (ii) The monthly annuity offset.

16 (A) The monthly annuity offset from the date of election shall be
17 the actuarial equivalent value of the member's account under chapter
18 41.34 RCW, at separation, from the minimum contributions required under
19 RCW 41.34.040 as if it were paid at normal retirement as a single-life
20 annuity with a three percent annual cost-of-living adjustment
21 commencing one year from the date of normal retirement.

22 (B) For the purposes of this subsection, "actuarial equivalent"
23 means a benefit of equal value when computed upon the basis of such
24 mortality tables and regulations as shall be adopted by the director
25 and regular interest.

26 (3) A member who elects to participate under section 12 of this act
27 must, after election, earn at least ten service credit years, or five
28 service credit years including twelve service credit months after age
29 fifty-four, to be eligible for the benefit provided in subsection
30 (2)(b) of this section.

31 (4) The retirement allowance payable under RCW 41.35.680 to a
32 member who separates after having completed at least twenty service
33 credit years shall be increased by twenty-five one-hundredths of one
34 percent, compounded for each month from the date of separation to the
35 date that the retirement allowance commences.

36 NEW SECTION. **Sec. 12.** A new section is added to chapter 41.35 RCW
37 under the subchapter heading "plan 3" to read as follows:

Beginning July 1, 2007, and through June 30, 2008, members who exercised the irrevocable option to transfer to plan 3 prior to January 1, 2007, may make an irrevocable election, filed in writing with the department, to participate in the prospective contribution and benefit provisions under RCW 41.34.040 and 41.35.620(2).

NEW SECTION. Sec. 13. A new section is added to chapter 41.35 RCW under the subchapter heading "plan 3" to read as follows:

Beginning July 1, 2007, and through June 30, 2008, a member who established membership under RCW 41.35.610 may make a one-time irrevocable election, filed in writing with the department, to leave any service credit earned as a member of plan 3 in plan 3 and join plan 2. A member who makes such an election shall become a dual plan member and may combine service in each plan for the purpose of determining benefit eligibility. The benefits of such members shall be administered in the same manner as benefits administered under the provisions of chapter 41.54 RCW, with such members being treated as if they were members of different systems for portability purposes. The department shall promulgate rules to ensure the portability of such members' plan 2 and plan 3 benefits.

Sec. 14. RCW 41.40.010 and 2004 c 242 s 53 are each amended to read as follows:

As used in this chapter, unless a different meaning is plainly required by the context:

(1) "Retirement system" means the public employees' retirement system provided for in this chapter.

(2) "Department" means the department of retirement systems created in chapter 41.50 RCW.

(3) "State treasurer" means the treasurer of the state of Washington.

(4)(a) "Employer" for plan 1 members, means every branch, department, agency, commission, board, and office of the state, any political subdivision or association of political subdivisions of the state admitted into the retirement system, and legal entities authorized by RCW 35.63.070 and 36.70.060 or chapter 39.34 RCW; and the term shall also include any labor guild, association, or organization the membership of a local lodge or division of which is comprised of at

1 least forty percent employees of an employer (other than such labor
2 guild, association, or organization) within this chapter. The term may
3 also include any city of the first class that has its own retirement
4 system.

5 (b) "Employer" for plan 2 and plan 3 members, means every branch,
6 department, agency, commission, board, and office of the state, and any
7 political subdivision and municipal corporation of the state admitted
8 into the retirement system, including public agencies created pursuant
9 to RCW 35.63.070, 36.70.060, and 39.34.030; except that after August
10 31, 2000, school districts and educational service districts will no
11 longer be employers for the public employees' retirement system plan 2.

12 (5) "Member" means any employee included in the membership of the
13 retirement system, as provided for in RCW 41.40.023. RCW 41.26.045
14 does not prohibit a person otherwise eligible for membership in the
15 retirement system from establishing such membership effective when he
16 or she first entered an eligible position.

17 (6) "Original member" of this retirement system means:

18 (a) Any person who became a member of the system prior to April 1,
19 1949;

20 (b) Any person who becomes a member through the admission of an
21 employer into the retirement system on and after April 1, 1949, and
22 prior to April 1, 1951;

23 (c) Any person who first becomes a member by securing employment
24 with an employer prior to April 1, 1951, provided the member has
25 rendered at least one or more years of service to any employer prior to
26 October 1, 1947;

27 (d) Any person who first becomes a member through the admission of
28 an employer into the retirement system on or after April 1, 1951,
29 provided, such person has been in the regular employ of the employer
30 for at least six months of the twelve-month period preceding the said
31 admission date;

32 (e) Any member who has restored all contributions that may have
33 been withdrawn as provided by RCW 41.40.150 and who on the effective
34 date of the individual's retirement becomes entitled to be credited
35 with ten years or more of membership service except that the provisions
36 relating to the minimum amount of retirement allowance for the member
37 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
38 apply to the member;

1 (f) Any member who has been a contributor under the system for two
2 or more years and who has restored all contributions that may have been
3 withdrawn as provided by RCW 41.40.150 and who on the effective date of
4 the individual's retirement has rendered five or more years of service
5 for the state or any political subdivision prior to the time of the
6 admission of the employer into the system; except that the provisions
7 relating to the minimum amount of retirement allowance for the member
8 upon retirement at age seventy as found in RCW 41.40.190(4) shall not
9 apply to the member.

10 (7) "New member" means a person who becomes a member on or after
11 April 1, 1949, except as otherwise provided in this section.

12 (8)(a) "Compensation earnable" for plan 1 members, means salaries
13 or wages earned during a payroll period for personal services and where
14 the compensation is not all paid in money, maintenance compensation
15 shall be included upon the basis of the schedules established by the
16 member's employer.

17 (i) "Compensation earnable" for plan 1 members also includes the
18 following actual or imputed payments, which are not paid for personal
19 services:

20 (A) Retroactive payments to an individual by an employer on
21 reinstatement of the employee in a position, or payments by an employer
22 to an individual in lieu of reinstatement in a position which are
23 awarded or granted as the equivalent of the salary or wage which the
24 individual would have earned during a payroll period shall be
25 considered compensation earnable and the individual shall receive the
26 equivalent service credit;

27 (B) If a leave of absence is taken by an individual for the purpose
28 of serving in the state legislature, the salary which would have been
29 received for the position from which the leave of absence was taken,
30 shall be considered as compensation earnable if the employee's
31 contribution is paid by the employee and the employer's contribution is
32 paid by the employer or employee;

33 (C) Assault pay only as authorized by RCW 27.04.100, 72.01.045, and
34 72.09.240;

35 (D) Compensation that a member would have received but for a
36 disability occurring in the line of duty only as authorized by RCW
37 41.40.038;

1 (E) Compensation that a member receives due to participation in the
2 leave sharing program only as authorized by RCW 41.04.650 through
3 41.04.670; and

4 (F) Compensation that a member receives for being in standby
5 status. For the purposes of this section, a member is in standby
6 status when not being paid for time actually worked and the employer
7 requires the member to be prepared to report immediately for work, if
8 the need arises, although the need may not arise.

9 (ii) "Compensation earnable" does not include:

10 (A) Remuneration for unused sick leave authorized under RCW
11 41.04.340, 28A.400.210, or 28A.310.490;

12 (B) Remuneration for unused annual leave in excess of thirty days
13 as authorized by RCW 43.01.044 and 43.01.041.

14 (b) "Compensation earnable" for plan 2 and plan 3 members, means
15 salaries or wages earned by a member during a payroll period for
16 personal services, including overtime payments, and shall include wages
17 and salaries deferred under provisions established pursuant to sections
18 403(b), 414(h), and 457 of the United States Internal Revenue Code, but
19 shall exclude nonmoney maintenance compensation and lump sum or other
20 payments for deferred annual sick leave, unused accumulated vacation,
21 unused accumulated annual leave, or any form of severance pay.

22 "Compensation earnable" for plan 2 and plan 3 members also includes
23 the following actual or imputed payments, which are not paid for
24 personal services:

25 (i) Retroactive payments to an individual by an employer on
26 reinstatement of the employee in a position, or payments by an employer
27 to an individual in lieu of reinstatement in a position which are
28 awarded or granted as the equivalent of the salary or wage which the
29 individual would have earned during a payroll period shall be
30 considered compensation earnable to the extent provided above, and the
31 individual shall receive the equivalent service credit;

32 (ii) In any year in which a member serves in the legislature, the
33 member shall have the option of having such member's compensation
34 earnable be the greater of:

35 (A) The compensation earnable the member would have received had
36 such member not served in the legislature; or

37 (B) Such member's actual compensation earnable received for
38 nonlegislative public employment and legislative service combined. Any

1 additional contributions to the retirement system required because
2 compensation earnable under (b)(ii)(A) of this subsection is greater
3 than compensation earnable under (b)(ii)(B) of this subsection shall be
4 paid by the member for both member and employer contributions;

5 (iii) Assault pay only as authorized by RCW 27.04.100, 72.01.045,
6 and 72.09.240;

7 (iv) Compensation that a member would have received but for a
8 disability occurring in the line of duty only as authorized by RCW
9 41.40.038;

10 (v) Compensation that a member receives due to participation in the
11 leave sharing program only as authorized by RCW 41.04.650 through
12 41.04.670; and

13 (vi) Compensation that a member receives for being in standby
14 status. For the purposes of this section, a member is in standby
15 status when not being paid for time actually worked and the employer
16 requires the member to be prepared to report immediately for work, if
17 the need arises, although the need may not arise.

18 (9)(a) "Service" for plan 1 members, except as provided in RCW
19 41.40.088, means periods of employment in an eligible position or
20 positions for one or more employers rendered to any employer for which
21 compensation is paid, and includes time spent in office as an elected
22 or appointed official of an employer. Compensation earnable earned in
23 full time work for seventy hours or more in any given calendar month
24 shall constitute one service credit month except as provided in RCW
25 41.40.088. Compensation earnable earned for less than seventy hours in
26 any calendar month shall constitute one-quarter service credit month of
27 service except as provided in RCW 41.40.088. Only service credit
28 months and one-quarter service credit months shall be counted in the
29 computation of any retirement allowance or other benefit provided for
30 in this chapter. Any fraction of a year of service shall be taken into
31 account in the computation of such retirement allowance or benefits.
32 Time spent in standby status, whether compensated or not, is not
33 service.

34 (i) Service by a state employee officially assigned by the state on
35 a temporary basis to assist another public agency, shall be considered
36 as service as a state employee: PROVIDED, That service to any other
37 public agency shall not be considered service as a state employee if

1 such service has been used to establish benefits in any other public
2 retirement system.

3 (ii) An individual shall receive no more than a total of twelve
4 service credit months of service during any calendar year. If an
5 individual is employed in an eligible position by one or more employers
6 the individual shall receive no more than one service credit month
7 during any calendar month in which multiple service for seventy or more
8 hours is rendered.

9 (iii) A school district employee may count up to forty-five days of
10 sick leave as creditable service solely for the purpose of determining
11 eligibility to retire under RCW 41.40.180 as authorized by RCW
12 28A.400.300. For purposes of plan 1 "forty-five days" as used in RCW
13 28A.400.300 is equal to two service credit months. Use of less than
14 forty-five days of sick leave is creditable as allowed under this
15 subsection as follows:

16 (A) Less than twenty-two days equals one-quarter service credit
17 month;

18 (B) Twenty-two days equals one service credit month;

19 (C) More than twenty-two days but less than forty-five days equals
20 one and one-quarter service credit month.

21 (b) "Service" for plan 2 and plan 3 members, means periods of
22 employment by a member in an eligible position or positions for one or
23 more employers for which compensation earnable is paid. Compensation
24 earnable earned for ninety or more hours in any calendar month shall
25 constitute one service credit month except as provided in RCW
26 41.40.088. Compensation earnable earned for at least seventy hours but
27 less than ninety hours in any calendar month shall constitute one-half
28 service credit month of service. Compensation earnable earned for less
29 than seventy hours in any calendar month shall constitute one-quarter
30 service credit month of service. Time spent in standby status, whether
31 compensated or not, is not service.

32 Any fraction of a year of service shall be taken into account in
33 the computation of such retirement allowance or benefits.

34 (i) Service in any state elective position shall be deemed to be
35 full time service, except that persons serving in state elective
36 positions who are members of the Washington school employees'
37 retirement system, teachers' retirement system, public safety
38 employees' retirement system, or law enforcement officers' and fire

1 fighters' retirement system at the time of election or appointment to
2 such position may elect to continue membership in the Washington school
3 employees' retirement system, teachers' retirement system, public
4 safety employees' retirement system, or law enforcement officers' and
5 fire fighters' retirement system.

6 (ii) A member shall receive a total of not more than twelve service
7 credit months of service for such calendar year. If an individual is
8 employed in an eligible position by one or more employers the
9 individual shall receive no more than one service credit month during
10 any calendar month in which multiple service for ninety or more hours
11 is rendered.

12 (iii) Up to forty-five days of sick leave may be creditable as
13 service solely for the purpose of determining eligibility to retire
14 under RCW 41.40.180 as authorized by RCW 28A.400.300. For purposes of
15 plan 2 and plan 3 "forty-five days" as used in RCW 28A.400.300 is equal
16 to two service credit months. Use of less than forty-five days of sick
17 leave is creditable as allowed under this subsection as follows:

18 (A) Less than eleven days equals one-quarter service credit month;

19 (B) Eleven or more days but less than twenty-two days equals one-
20 half service credit month;

21 (C) Twenty-two days equals one service credit month;

22 (D) More than twenty-two days but less than thirty-three days
23 equals one and one-quarter service credit month;

24 (E) Thirty-three or more days but less than forty-five days equals
25 one and one-half service credit month.

26 (10) "Service credit year" means an accumulation of months of
27 service credit which is equal to one when divided by twelve.

28 (11) "Service credit month" means a month or an accumulation of
29 months of service credit which is equal to one.

30 (12) "Prior service" means all service of an original member
31 rendered to any employer prior to October 1, 1947.

32 (13) "Membership service" means:

33 (a) All service rendered, as a member, after October 1, 1947;

34 (b) All service after October 1, 1947, to any employer prior to the
35 time of its admission into the retirement system for which member and
36 employer contributions, plus interest as required by RCW 41.50.125,
37 have been paid under RCW 41.40.056 or 41.40.057;

1 (c) Service not to exceed six consecutive months of probationary
2 service rendered after April 1, 1949, and prior to becoming a member,
3 in the case of any member, upon payment in full by such member of the
4 total amount of the employer's contribution to the retirement fund
5 which would have been required under the law in effect when such
6 probationary service was rendered if the member had been a member
7 during such period, except that the amount of the employer's
8 contribution shall be calculated by the director based on the first
9 month's compensation earnable as a member;

10 (d) Service not to exceed six consecutive months of probationary
11 service, rendered after October 1, 1947, and before April 1, 1949, and
12 prior to becoming a member, in the case of any member, upon payment in
13 full by such member of five percent of such member's salary during said
14 period of probationary service, except that the amount of the
15 employer's contribution shall be calculated by the director based on
16 the first month's compensation earnable as a member.

17 (14)(a) "Beneficiary" for plan 1 members, means any person in
18 receipt of a retirement allowance, pension or other benefit provided by
19 this chapter.

20 (b) "Beneficiary" for plan 2 and plan 3 members, means any person
21 in receipt of a retirement allowance or other benefit provided by this
22 chapter resulting from service rendered to an employer by another
23 person.

24 (15) "Regular interest" means such rate as the director may
25 determine.

26 (16) "Accumulated contributions" means the sum of all contributions
27 standing to the credit of a member in the member's individual account,
28 including any amount paid under RCW 41.50.165(2), together with the
29 regular interest thereon.

30 (17)(a) "Average final compensation" for plan 1 members, means the
31 annual average of the greatest compensation earnable by a member during
32 any consecutive two year period of service credit months for which
33 service credit is allowed; or if the member has less than two years of
34 service credit months then the annual average compensation earnable
35 during the total years of service for which service credit is allowed.

36 (b) "Average final compensation" for plan 2 and plan 3 members,
37 means the member's average compensation earnable of the highest
38 consecutive sixty months of service credit months prior to such

1 member's retirement, termination, or death. Periods constituting
2 authorized leaves of absence may not be used in the calculation of
3 average final compensation except under RCW 41.40.710(2).

4 (18) "Final compensation" means the annual rate of compensation
5 earnable by a member at the time of termination of employment.

6 (19) "Annuity" means payments for life derived from accumulated
7 contributions of a member. All annuities shall be paid in monthly
8 installments.

9 (20) "Pension" means payments for life derived from contributions
10 made by the employer. All pensions shall be paid in monthly
11 installments.

12 (21) "Retirement allowance" means the sum of the annuity and the
13 pension.

14 (22) "Employee" or "employed" means a person who is providing
15 services for compensation to an employer, unless the person is free
16 from the employer's direction and control over the performance of work.
17 The department shall adopt rules and interpret this subsection
18 consistent with common law.

19 (23) "Actuarial equivalent" means a benefit of equal value when
20 computed upon the basis of such mortality and other tables as may be
21 adopted by the director.

22 (24) "Retirement" means withdrawal from active service with a
23 retirement allowance as provided by this chapter.

24 (25) "Eligible position" means:

25 (a) Any position that, as defined by the employer, normally
26 requires five or more months of service a year for which regular
27 compensation for at least seventy hours is earned by the occupant
28 thereof. For purposes of this chapter an employer shall not define
29 "position" in such a manner that an employee's monthly work for that
30 employer is divided into more than one position;

31 (b) Any position occupied by an elected official or person
32 appointed directly by the governor, or appointed by the chief justice
33 of the supreme court under RCW 2.04.240(2) or 2.06.150(2), for which
34 compensation is paid.

35 (26) "Ineligible position" means any position which does not
36 conform with the requirements set forth in subsection (25) of this
37 section.

1 (27) "Leave of absence" means the period of time a member is
2 authorized by the employer to be absent from service without being
3 separated from membership.

4 (28) "Totally incapacitated for duty" means total inability to
5 perform the duties of a member's employment or office or any other work
6 for which the member is qualified by training or experience.

7 (29) "Retiree" means any person who has begun accruing a retirement
8 allowance or other benefit provided by this chapter resulting from
9 service rendered to an employer while a member.

10 (30) "Director" means the director of the department.

11 (31) "State elective position" means any position held by any
12 person elected or appointed to statewide office or elected or appointed
13 as a member of the legislature.

14 (32) "State actuary" or "actuary" means the person appointed
15 pursuant to RCW 44.44.010(2).

16 (33) "Plan 1" means the public employees' retirement system, plan
17 1 providing the benefits and funding provisions covering persons who
18 first became members of the system prior to October 1, 1977.

19 (34) "Plan 2" means the public employees' retirement system, plan
20 2 providing the benefits and funding provisions covering persons who
21 first became members of the system on and after October 1, 1977, and
22 are not included in plan 3.

23 (35) "Plan 3" means the public employees' retirement system, plan
24 3 providing the benefits and funding provisions covering persons who:

25 (a) First become a member on or after:

26 (i) March 1, 2002, and are employed by a state agency or institute
27 of higher education and who did not choose to enter plan 2; or

28 (ii) September 1, 2002, and are employed by other than a state
29 agency or institute of higher education and who did not choose to enter
30 plan 2; or

31 (b) Transferred to plan 3 under RCW 41.40.795.

32 (36) "Index" means, for any calendar year, that year's annual
33 average consumer price index, Seattle, Washington area, for urban wage
34 earners and clerical workers, all items, compiled by the bureau of
35 labor statistics, United States department of labor.

36 (37) "Index A" means the index for the year prior to the
37 determination of a postretirement adjustment.

38 (38) "Index B" means the index for the year prior to index A.

1 (39) "Index year" means the earliest calendar year in which the
2 index is more than sixty percent of index A.

3 (40) "Adjustment ratio" means the value of index A divided by index
4 B.

5 (41) "Annual increase" means(~~(, initially, fifty-nine)~~) one dollar
6 and fifty-seven cents per month per year of service which amount shall
7 be increased each July 1st by three percent, rounded to the nearest
8 cent.

9 (42) "Separation from service" occurs when a person has terminated
10 all employment with an employer. Separation from service or employment
11 does not occur, and if claimed by an employer or employee may be a
12 violation of RCW 41.40.055, when an employee and employer have a
13 written or oral agreement to resume employment with the same employer
14 following termination.

15 (43) "Member account" or "member's account" for purposes of plan 3
16 means the sum of the contributions and earnings on behalf of the member
17 in the defined contribution portion of plan 3.

18 **Sec. 15.** RCW 41.40.790 and 2000 c 247 s 303 are each amended to
19 read as follows:

20 (1) A member of the retirement system shall receive a retirement
21 allowance equal to one percent of such member's average final
22 compensation for each service credit year.

23 (2) In lieu of the retirement allowance under subsection (1) of
24 this section, a member of the retirement system who elects to
25 participate under section 16 of this act shall receive:

26 (a) A monthly retirement allowance equal to one percent of such
27 member's average final compensation for each service credit year; and

28 (b) An additional retirement allowance equal to the excess, if any,
29 of:

30 (i) One percent of such member's average final compensation for
31 each service credit year from the date of election; over

32 (ii) The monthly annuity offset.

33 (A) The monthly annuity offset from the date of election shall be
34 the actuarial equivalent value of the member's account under chapter
35 41.34 RCW, at separation, from the minimum contributions required under
36 RCW 41.34.040 as if it were paid at normal retirement as a single-life

1 annuity with a three percent annual cost-of-living adjustment
2 commencing one year from the date of normal retirement.

3 (B) For the purposes of this subsection, "actuarial equivalent"
4 means a benefit of equal value when computed upon the basis of such
5 mortality tables and regulations as shall be adopted by the director
6 and regular interest.

7 (3) A member who elects to participate under section 16 of this act
8 must, after election, earn at least ten service credit years, or five
9 service credit years including twelve service credit months after age
10 fifty-four, to be eligible for the benefit provided in subsection
11 (2)(b) of this section.

12 (4) The retirement allowance payable under RCW 41.40.820 to a
13 member who separates after having completed at least twenty service
14 credit years shall be increased by twenty-five one-hundredths of one
15 percent, compounded for each month from the date of separation to the
16 date that the retirement allowance commences.

17 NEW SECTION. Sec. 16. A new section is added to chapter 41.40 RCW
18 under the subchapter heading "plan 3" to read as follows:

19 Beginning July 1, 2007, and through June 30, 2008, members who
20 exercised an irrevocable option to transfer to plan 3 prior to January
21 1, 2007, may make an irrevocable election, filed in writing with the
22 department, to participate in the prospective contribution and benefit
23 provisions under RCW 41.34.040 and 41.40.790(2).

24 **Sec. 17.** RCW 41.45.061 and 2004 c 242 s 40 are each amended to
25 read as follows:

26 (1) The required contribution rate for members of the ~~((plan 2))~~
27 teachers' retirement system plan 2 shall be ~~((fixed at the rates in~~
28 ~~effect on July 1, 1996, subject to the following:~~

29 ~~(a) Beginning September 1, 1997, except as provided in (b) of this~~
30 ~~subsection, the employee contribution rate shall not exceed the~~
31 ~~employer plan 2 and 3 rates adopted under RCW 41.45.060, 41.45.054, and~~
32 ~~41.45.070 for the teachers' retirement system;~~

33 ~~(b) In addition, the employee contribution rate for plan 2 shall be~~
34 ~~increased by fifty percent of the contribution rate increase caused by~~
35 ~~any plan 2 benefit increase passed after July 1, 1996;~~

1 ~~(c) In addition, the employee contribution rate for plan 2 shall~~
2 ~~not be increased as a result of any distributions pursuant to section~~
3 ~~309, chapter 341, Laws of 1998 and RCW 41.31A.020)) set at the same~~
4 ~~rate as the employer combined plan 2 and plan 3 rate.~~

5 (2) The required contribution rate for members of the school
6 employees' retirement system plan 2 shall ~~((equal the school employees'~~
7 ~~retirement system employer plan 2 and 3 contribution rate adopted under~~
8 ~~RCW 41.45.060, 41.45.054, and 41.45.070, except as provided in~~
9 ~~subsection (3) of this section.~~

10 ~~(3) The member contribution rate for the school employees'~~
11 ~~retirement system plan 2 shall be increased by fifty percent of the~~
12 ~~contribution rate increase caused by any plan 2 benefit increase passed~~
13 ~~after September 1, 2000)) be set at the same rate as the employer~~
14 ~~combined plan 2 and plan 3 rate.~~

15 ~~((4))~~ (3) The required contribution rate for members of the
16 public employees' retirement system plan 2 shall be set at the same
17 rate as the employer combined plan 2 and plan 3 rate.

18 ~~((5))~~ (4) The required contribution rate for members of the law
19 enforcement officers' and fire fighters' retirement system plan 2 shall
20 be set at fifty percent of the cost of the retirement system.

21 (5) The required contribution rates for members of the teachers'
22 retirement system plan 2 shall not include any increase as a result of
23 this act.

24 (6) The ~~((employee))~~ required contribution rates for members of the
25 school employees' retirement system plan 2 ~~((under subsections (3) and~~
26 ~~(4) of this section))~~ shall not include any increase as a result of
27 ~~((any distributions pursuant to RCW 41.31A.020 and 41.31A.030))~~ this
28 act.

29 (7) The required contribution rates for members of the public
30 employees' retirement system plan 2 shall not include any increase as
31 a result of this act.

32 (8) The required plan 2 and 3 contribution rates for employers
33 shall be adopted in the manner described in RCW 41.45.060(~~(~~
34 ~~41.45.054,~~~~)~~) and 41.45.070.

35 ~~((8))~~ (9) The required contribution rate for members of the
36 public safety employees' retirement system plan 2 shall be set at fifty
37 percent of the cost of the retirement system.

1 **Sec. 18.** RCW 41.45.070 and 2004 c 242 s 41 are each amended to
2 read as follows:

3 (1) In addition to the basic employer contribution rate established
4 in RCW 41.45.060 (~~or 41.45.054~~), the department shall also charge
5 employers of public employees' retirement system, teachers' retirement
6 system, school employees' retirement system, public safety employees'
7 retirement system, or Washington state patrol retirement system members
8 an additional supplemental rate to pay for the cost of additional
9 benefits, if any, granted to members of those systems. (~~Except as~~
10 ~~provided in subsections (6) and (7) of this section,~~) The supplemental
11 contribution rates required by this section shall be calculated by the
12 state actuary and shall be charged regardless of language to the
13 contrary contained in the statute which authorizes additional benefits.

14 (2) In addition to the basic member, employer, and state
15 contribution rate established in RCW 41.45.0604 for the law enforcement
16 officers' and fire fighters' retirement system plan 2, the department
17 shall also establish supplemental rates to pay for the cost of
18 additional benefits, if any, granted to members of the law enforcement
19 officers' and fire fighters' retirement system plan 2. (~~Except as~~
20 ~~provided in subsection (6) of this section,~~) These supplemental rates
21 shall be calculated by the actuary retained by the law enforcement
22 officers' and fire fighters' board and the state actuary through the
23 process provided in RCW 41.26.720(1)(a) and the state treasurer shall
24 transfer the additional required contributions regardless of language
25 to the contrary contained in the statute which authorizes the
26 additional benefits.

27 (3) The supplemental rate charged under this section to fund
28 benefit increases provided to active members of the public employees'
29 retirement system plan 1, the teachers' retirement system plan 1, and
30 Washington state patrol retirement system, shall be calculated as the
31 level percentage of all members' pay needed to fund the cost of the
32 benefit not later than June 30, 2024.

33 (4) The supplemental rate charged under this section to fund
34 benefit increases provided to active and retired members of the public
35 employees' retirement system plan 2 and plan 3, the teachers'
36 retirement system plan 2 and plan 3, the public safety employees'
37 retirement system plan 2, or the school employees' retirement system

plan 2 and plan 3 shall be calculated as the level percentage of all members' pay needed to fund the cost of the benefit, as calculated under RCW 41.45.060, 41.45.061, or 41.45.067.

(5) The supplemental rate charged under this section to fund postretirement adjustments which are provided on a nonautomatic basis to current retirees shall be calculated as the percentage of pay needed to fund the adjustments as they are paid to the retirees. The supplemental rate charged under this section to fund automatic postretirement adjustments for active or retired members of the public employees' retirement system plan 1 and the teachers' retirement system plan 1 shall be calculated as the level percentage of pay needed to fund the cost of the automatic adjustments not later than June 30, 2024.

(6) A supplemental rate shall not be charged to pay for the cost of ~~((additional benefits granted to members pursuant to chapter 340, Laws of 1998.~~

~~(7) A supplemental rate shall not be charged to pay for the cost of additional benefits granted to members pursuant to chapter 41.31A RCW; section 309, chapter 341, Laws of 1998; or section 701, chapter 341, Laws of 1998))~~ this act prior to July 1, 2007.

NEW SECTION. **Sec. 19.** The following acts or parts of acts are each repealed:

(1) RCW 41.31.010 (Annual pension increases--Increased by gain-sharing increase amount) and 1998 c 340 s 1;

(2) RCW 41.31.020 (Gain-sharing increase amount calculated) and 1998 c 340 s 2;

(3) RCW 41.31.030 (Contractual right to increase not granted) and 1998 c 340 s 3;

(4) RCW 41.31A.010 (Definitions) and 2000 c 247 s 407 & 1998 c 341 s 311;

(5) RCW 41.31A.020 (Extraordinary investment gain--Credited to member accounts--Persons eligible--Calculation of amount--Contractual right not granted) and 2003 c 294 s 4, 2000 c 247 s 408, & 1998 c 341 s 312;

(6) RCW 41.31A.030 (Retroactive extraordinary investment gain--Credited to member accounts--Persons eligible--Calculation of amount--Contractual right not granted) and 1998 c 341 s 313; and

1 (7) RCW 41.31A.040 (Retroactive extraordinary investment gain--
2 Credited to member accounts--Persons eligible--Calculation of amount--
3 Contractual right not granted) and 2000 c 247 s 409.

4 NEW SECTION. **Sec. 20.** The benefits provided under this act are
5 not provided to employees as a matter of contractual right prior to
6 July 1, 2007. The legislature retains the right to alter or abolish
7 these benefits at any time prior to July 1, 2007.

8 NEW SECTION. **Sec. 21.** If any part of this act is found to be in
9 conflict with a final determination by the federal internal revenue
10 service that is a prescribed condition to favorable tax treatment of
11 one or more of the retirement plans, the conflicting part of this act
12 is inoperative solely to the extent of the conflict and with respect to
13 the individual members directly affected. This finding does not affect
14 the operation of the remainder of this act in its application to the
15 members concerned. The legislature reserves the right to amend or
16 repeal this act in the future as may be required to comply with a final
17 federal determination that amendment or repeal is necessary to maintain
18 the favorable tax treatment of a plan.

19 NEW SECTION. **Sec. 22.** Except for section 7 of this act which
20 takes effect July 1, 2008, this act takes effect July 1, 2007.

--- END ---

FISCAL NOTE

REQUEST NO.

| | | | |
|-----------------------------|-------|--------|-----------------|
| RESPONDING AGENCY: | CODE: | DATE: | BILL NUMBER: |
| Office of the State Actuary | 035 | 2/8/06 | SB 6795/HB 3183 |

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), and the School Employees' Retirement System (SERS) by repealing gain-sharing and annual contribution rate choice in TRS 3, and providing for the following alternative benefits:

- The "Annual Increase Amount" used in calculating members' Uniform COLA in PERS 1 and TRS 1 is increased by 24 cents. This would raise the July 1, 2007 amount from \$1.33 to \$1.57 per month for each year of service.
- Plan 2/3 choice is added for new hires in TRS and SERS (same structure for choice as in PERS).
- TRS 3 and SERS 3 members who have entered the system since their respective plans opened will have a window of opportunity to transfer prospectively to Plan 2.
- Current Plan 3 members who chose to enter Plan 3 either through transfer, or through choice upon employment with a PERS employer, will be provided a one-time opportunity to participate prospectively in a 2% defined benefit (DB) accrual in Plan 3 with a 1% defined contribution (DC) annuity offset.

Members who exercise the option to receive the 2% prospective benefit in Plan 3 with offset must direct minimum defined contribution amounts (5% in PERS and SERS, 6% in TRS) to the Washington State Investment Board investment program.

Eligibility for the 2% prospective benefit in Plan 3 with offset is further defined as 10 years of service after the option is exercised or 5 years of service if it includes 12 months after age 54.

Effective Date: July 1, 2007 (except for Section 7 which takes effect on July 1, 2008).

CURRENT SITUATION:

Currently, gain-sharing applies to the Plans 1 of PERS and TRS, and the Plans 3 of TRS, SERS and PERS. Gain-sharing is a mechanism that increases benefits; the increases are not automatic, but are contingent on the occurrence of "extraordinary investment gains." Extraordinary gains occur when the compound average of investment returns on pension fund assets exceeds 10% for the previous four state fiscal years. When this occurs, a calculation is performed to determine a dollar amount that will be distributed to eligible members. Gain-sharing calculations are currently made once each biennium with potential distributions occurring in January of even-numbered years.

Plan 1 Gain-Sharing

When a gain-sharing event occurs, one-half of the gain for PERS 1 and TRS 1 is used to fund a permanent increase in the PERS 1 and TRS 1 Uniform COLA for current and future retirees. The monthly Uniform COLA is determined by multiplying each member's years of service by the "Annual Increase Amount". The most recent Annual Increase Amount was \$1.25; an eligible member with 30 years of service received a monthly COLA of \$37.50 (30 years of service times \$1.25). The Annual Increase Amount increases each year by at least 3%. Gain-sharing is also used to boost the Annual Increase Amount; 38 cents of the current amount compounded at 3 percent is a result of past gain-sharing. The Annual Increase Amount is scheduled to increase to \$1.29 on July 1, 2006, and to \$1.33 on July 1, 2007.

Plan 3 Gain-Sharing

In the Plans 3, active, retired, and terminated vested members receive gain-sharing distributions as a lump sum dollar amount that is deposited directly into their defined contribution accounts based on years of service credit. A member will qualify for gain-sharing by having a balance of at least \$1,000 in their account. There have been two gain-sharing distributions since the inception of gain-sharing: one in 1998 and one in 2000.

Plan Choice

Currently, of the three systems, PERS is the only one that has Plan 2/3 choice at hire. New PERS employees have a period of ninety days to make an irrevocable choice to become a member of Plan 2 or Plan 3. At the end of ninety days, if the member has not made a choice to become a member of Plan 2, he or she automatically becomes a member of Plan 3. In TRS and SERS, new employees automatically become members of Plan 3, and the Plans 2 are closed to new hires. Once a member has entered Plan 3, he or she may not currently transfer to Plan 2.

Plan 3 Benefit

A retiring Plan 3 member currently receives a defined benefit (DB) that is equal to 1% of the member's average final compensation (AFC) per month per year of service. Members do not contribute to this 1% DB. Instead, they contribute to a defined contribution (DC) account, the contents of which they may withdraw as they see fit upon separation from employment.

Plan 3 Contribution Rates

Current law provides that members of the Plans 3 may change their contribution rate option by notifying their employer in writing during the month of January. In practice, this provision is only available to TRS 3 members, as the IRS did not allow for contribution rate flexibility in PERS and SERS when the plans were recently qualified.

MEMBERS IMPACTED:

Plan 1 Gain-sharing

The 24 cent COLA and the repeal of Plan 1 gain-sharing will impact all 75,390 members of PERS 1 and all 45,961 members of TRS 1.

For a typical Plan 1 member impacted by this bill, the uncertain and irregular adjustment to the Annual Increase Amount provided by gain-sharing is exchanged for a definitely determinable increase. Instead of providing adjustments to the Annual Increase Amount with gain-sharing, the Annual Increase Amount would be permanently increased by 24 cents. A retiree with 25 years of service would get an initial increase of \$6 per month. This \$6 increase would become a permanent part of the Uniform COLA Annual Increase Amount, growing by 3% per year thereafter.

For another example, on July 1, 2007, an eligible retiree with 30 years of service credit would receive an additional \$7.20 per month for the first year. On July 1, 2008, the same retiree would receive an additional \$14.62 per month for the second year. Only July 1, 2009, the same retiree would receive an additional \$22.26 per month for the third year. On July 1, 2021, the same retiree would receive an additional \$133.93 per month for the fifteenth year and so on. (The additional amounts are cumulative and the amount of the additional increase in each year is compared to an initial increase of \$0).

Plan 3 Gain-sharing

The repeal of Plan 3 gain-sharing could potentially impact all current and future members of PERS 3, TRS 3, and SERS 3, including all of the active Plan 3 members except those that would not meet the requirement of having a minimum \$1,000 balance in the member account, all of the Plan 3 annuitants, all of the Plan 3 terminated vested members meeting the minimum balance requirement, and any Plan 3 terminated non-vested members who are rehired.

| <i>(As of September 30, 2004)</i> | PERS 3 | TRS 3 | SERS 3 |
|-----------------------------------|---------------|--------------|---------------|
| Active | 19,855 | 49,302 | 29,430 |
| Annuityants | 222 | 541 | 481 |
| Terminated and Vested | <u>1,284</u> | <u>2,761</u> | <u>2,035</u> |
| Total | 21,361 | 52,604 | 31,946 |

Plan 2/3 Choice

Regarding Plan 2/3 plan choice, this will impact TRS and SERS members hired on or after July 1, 2007. We estimate that from October 1, 2007 to September 30, 2008, there will be a total of 4,568 new TRS members and 5,452 new SERS members. The number of new members is expected to increase each year. We estimate that 50% of these new members would elect to join Plan 2 and 50% would elect Plan 3.

Prospective Transfer from Plan 3 to Plan 2

Only members of TRS 3 and SERS 3 who were mandated into Plan 3 could be impacted by the provision that would allow a window of opportunity to prospectively earn service in Plan 2. These members are in Plan 3 solely because Plan 2 membership was closed when they entered service. There are currently 27,481 TRS 3 actives hired since TRS 3 opened and 14,123 SERS 3 active members hired after SERS 3 opened.

The following example for a Plan 2/3 prospective transfer assumes a Plan 3 member with an Average Final Compensation (AFC) of \$5,000 per month and 10 years of service (YOS) before and 20 YOS after the effective date of the proposal (July 1, 2007):

| Prospective Transfer from Plan 3 to Plan 2 | | | |
|---|---------------------------------|-------------------------------|--------------|
| | Plan 2 | Plan 3* | Total |
| Monthly benefit at age 65 | \$2,000 = 2% of AFC × 20 YOS | \$500 = 1% of AFC × 10 YOS | \$2,500 |

**Example does not include benefit from Plan 3 defined contributions before transfer. AFC in Plan 2 used in Plan 3 benefit calculation (based on revised portability provision in proposal).*

Prospective 2% DB Accrual in Plan 3

The prospective 2% DB accrual with 1% DC offset in Plan 3 would impact all members eligible to participate, namely those who opted into Plan 3 either through transfer or through current PERS Plan 2/3 choice.

| Plan 3 Active Membership through Choice | | | |
|--|---------------|--------------|---------------|
| <i>(As of September 30, 2004)</i> | PERS 3 | TRS 3 | SERS 3 |
| Transferred from Plan 2 | 12,203 | 21,821 | 15,307 |
| Hired after Plan 3 inception date* | 7,652 | 0 | 0 |

**This number also includes those who failed to make a choice, and so were placed in Plan 3 by default.*

The following two examples of the prospective 2% DB accrual assume a Plan 3 member with an AFC of \$5,000 per month and 10 years of service before and 20 years of service after the effective date of the proposal (July 1, 2007).

Prospective 2% Benefit in Plan 3
Account Balance Less than Value of 1% Annuity

| | | |
|----|---|-----------------------------------|
| A. | Employer provided defined benefit (DB) - monthly | \$1,500 = 1% of AFC × 30 YOS |
| B. | Plan 3 defined contribution (DC) account value at separation* | \$129,600 |
| C. | Value of Plan 3 DC account as an annuity | \$900 |
| D. | 1% of AFC for service after election | \$1,000 = 1% of AFC × 20 YOS |
| E. | Additional employer provided DB (excess of D over C) | \$100 = \$1,000 - \$900 |
| F. | Total benefit at age 65 (A + C + E)** | \$2,500 = \$1,500 + \$900 + \$100 |

* Account value based on minimum required contributions after election.

** Annuity payout assumed, but not required under the proposal. Example does not include benefit from Plan 3 defined contributions before July 1, 2007.

Account Balance Greater than Value of 1% Annuity

| | | |
|----|---|-----------------------------------|
| A. | Employer provided defined benefit (DB) - monthly | \$1,500 = 1% of AFC × 30 YOS |
| B. | Plan 3 defined contribution (DC) account value at separation* | \$158,400 |
| C. | Value of Plan 3 DC account as an annuity | \$1,100 |
| D. | 1% of AFC for service after election | \$1,000 = 1% of AFC × 20 YOS |
| E. | Additional employer provided DB (excess of D over C) | \$0 |
| F. | Total benefit at age 65 (A + C + E)** | \$2,600 = \$1,500 + \$1,100 + \$0 |

* Account value based on minimum required contributions after election.

** Annuity payout assumed, but not required under the proposal. Example does not include benefit from Plan 3 defined contributions before July 1, 2007.

Plan 3 Contribution Rates

The removal of the Plan 3 provision that allows members to change their employee contribution rate by notifying their employer in writing during the month of January would affect 49,302 active TRS 3 members. This change would impact the defined contribution portion of the plan and would have no impact on benefits under the defined benefit plan.

ASSUMPTIONS:

We assumed that employer contribution rates would decrease after the proposed repeal of gain-sharing because the suspension of liability for future gain-sharing ends at the beginning of the 2007-09 biennium. The cost impact was developed using the same logic as used for the 2003 valuation (rates were determined assuming a delayed effective date from the valuation date to 2007).

For pricing the cost of plan choice at hire, we determined the Entry Age Normal Cost rate (EANC) for Plan 2 as if every active Plan 2 and Plan 3 member were in Plan 2, and we determined the EANC for Plan 3 as if every active Plan 2 and Plan 3 member were in Plan 3. We calculated the excess of the employer portion of the EANC for Plan 2 over the EANC for Plan 3 and then took 50% of the difference to reflect our assumption that 50% of new members in TRS and SERS would elect to join Plan 2 and 50% would elect Plan 3. Since the choice would only apply to new members, we assumed no rate increase for choice for the current members, and applied the rate increase for choice to the projected payroll for the new entrants only.

We considered making an adjustment for the cost of plan choice based on the age of members who would elect Plan 2 compared to the age of members who would elect Plan 3, however, after reviewing the choices made by new members in PERS over an 18-month period, there was no significant difference in choice based on age.

In pricing the opportunity for Plan 3 members to prospectively transfer to Plan 2, we assumed that approximately 50% of the current eligible actives would elect to do so. In addition, we assumed that the members who would choose this option would be the older half of the active members, since Plan 2 provisions generally benefit older members more than Plan 3 provisions.

Under the method for determining the fiscal impact of the prospective 2% defined benefit offset formula in Plan 3, a 2% defined benefit accrual was offset by the actuarial equivalent value of the defined contribution plan balance as an annuity, with a maximum of a 1% offset. Actuarial equivalence, for this purpose, was based on 8% interest and both pre- and post-retirement mortality.

For the effective date of the prospective 2% DB offset formula in Plan 3, we assumed that it would first apply ten years after the July 1, 2007 effective date, or five years for members age 55 and over. We assumed that all eligible Plan 3 members would elect to participate prospectively in these benefit provisions.

The defined contribution plan balance was projected based on the minimum required contribution rate (5% for PERS and SERS, and 6% for TRS), accumulated with earnings based on the Washington State Investment Board's (SIB) current asset mix. Rates of return were decreased from the SIB expected return based on the weighted average of the excess, if any, of the return for each percentile (using a total of ten percentiles), over the SIB's expected return for the given period. These rates were dependent on the investment horizon. The longer the investment horizon, the less likely that the compounded returns would be below the expected return, and the less of an interest rate reduction from the expected return. The following table shows the annual return that was assumed on the defined contribution account balance for each year.

| Time Horizon | Annual Return |
|-----------------|------------------|
| Years 1-5 | 5.77% |
| Years 6-10 | 7.05% |
| Years 11-20 | 7.33% |
| Beyond 20 years | 7.55% |

The projected account balances were converted to monthly annuities discounted for mortality and 8% interest. The following table provides sample factors that were used to convert the Plan 3 account balances at decrement to deferred monthly annuities payable at age 65 for ages under 65, and for immediate monthly annuities at age 65 and above.

| | PERS 2/3 | SERS 2/3 | TRS 2/3 |
|----|-----------|-----------|-----------|
| 40 | 0.0436255 | 0.0428364 | 0.0427864 |
| 45 | 0.0314450 | 0.0307269 | 0.0306775 |
| 50 | 0.0222775 | 0.0216271 | 0.0215804 |
| 55 | 0.0156338 | 0.0150454 | 0.0150041 |
| 60 | 0.0104851 | 0.0099838 | 0.0099513 |
| 65 | 0.0072458 | 0.0068158 | 0.0067919 |
| 70 | 0.0084366 | 0.0078162 | 0.0077883 |

The excess, if any, of the benefit provided by a 1% accrual rate on service after the effective date, over the the projected Plan 3 account balance as an annuity, was determined to be the benefit increase provided at normal retirement age.

We assume that contribution rate changes for Plan 2 benefit changes under this bill are 100% employer paid and that there is no increase to the Plan 2 member rate for current members. As new entrants enter Plan 2, we assume that the 50%/50% employee/employer cost sharing policy will apply.

FISCAL IMPACT:

Description:

The decrease in contribution rates from the proposed repeal of future gain-sharing is partially offset by the increase due to the proposed benefit improvements.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing (decreasing) the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

| <i>(Dollars in Millions)</i> | | Current* | Increase | Total |
|---|---------------|----------|----------|----------|
| Actuarial Present Value of Projected Benefits | PERS | \$28,718 | \$(283) | \$28,435 |
| (The Value of the Total Commitment to all Current Members) | TRS | \$16,407 | \$(418) | \$15,989 |
| | SERS | \$2,296 | \$(80) | \$2,216 |
| Unfunded Actuarial Accrued Liability | PERS 1 | \$3,052 | \$(248) | \$2,804 |
| (The Portion of the Plan 1 Liability that is Amortized at 2024) | TRS 1 | \$1,816 | \$(195) | \$1,621 |
| Unfunded Liability (PBO) | PERS | \$(162) | \$(280) | \$(442) |
| (The Value of the Total Commitment to all Current Members Attributable to Past Service) | TRS | \$309 | \$(347) | \$(38) |
| | SERS | \$(360) | \$(79) | \$(439) |

* Includes the cost of future gain-sharing benefits

| Increase in Contribution Rates: | PERS | TRS | SERS |
|--|--------------|--------------|--------------|
| (Effective 7/01/07 unless indicated otherwise) | | | |
| Current Members | | | |
| Employee | | | |
| Repeal Gain-Sharing (effective 7/1/07 for PERS, 9/1/07 for TRS and SERS) | 0.00% | 0.00% | 0.00% |
| Plan Choice | 0.00% | 0.00% | 0.00% |
| Prospective Plan 3 to Plan 2 Transfer | 0.00% | 0.00% | 0.00% |
| Plan 3 2% DB Accrual | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> |
| Total Benefit Improvements | 0.00% | 0.00% | 0.00% |
| Net Employee (Plan 2) | 0.00% | 0.00% | 0.00% |
| Employer State | | | |
| Plan 1 | | | |
| Repeal Gain-Sharing (effective 7/1/07 for PERS, 9/1/07 for TRS and SERS) | (0.46)% | (0.94)% | (0.46)% |
| \$0.24 Uniform COLA Increase | 0.23% | 0.47% | 0.23% |
| Net Plan 1 Employer State | (0.23)% | (0.47)% | (0.23)% |
| Plan 2/3 | | | |
| Repeal Gain-Sharing (effective 7/1/07 for PERS, 9/1/07 for TRS and SERS) | (0.25)% | (1.24)% | (2.09)% |
| Plan Choice | 0.00% | 0.00% | 0.00% |
| Prospective Plan 3 to Plan 2 Transfer | 0.00% | 0.15% | 0.17% |
| Plan 3 2% DB Accrual | <u>0.16%</u> | <u>0.33%</u> | <u>0.69%</u> |
| Total Plan 2/3 Benefit Improvements | 0.16% | 0.48% | 0.86% |

| Increase in Contribution Rates: (Effective 7/01/07 unless indicated otherwise) | PERS | TRS | SERS |
|--|--------------|--------------|--------------|
| Net Plan 2/3 Employer State | (0.09)% | (0.76)% | (1.23)% |
| Total Employer State | (0.32)% | (1.23)% | (1.46)% |
| New Entrants* | | | |
| Employee | | | |
| Repeal Gain-Sharing (effective 7/1/07 for PERS, 9/1/07 for TRS and SERS) | 0.00% | 0.00% | 0.00% |
| Plan Choice | 0.00% | 0.13% | 0.15% |
| Prospective Plan 3 to Plan 2 Transfer | 0.00% | 0.00% | 0.00% |
| Plan 3 2% DB Accrual | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> |
| Total Plan 2/3 Benefit Improvements | 0.00% | 0.13% | 0.15% |
| Net Employee (Plan 2) | 0.00% | 0.13% | 0.15% |
| Employer State | | | |
| Repeal Gain-Sharing (effective 7/1/07 for PERS, 9/1/07 for TRS and SERS) | (0.34)% | (1.05)% | (2.50)% |
| Plan Choice | 0.00% | 0.13% | 0.15% |
| Prospective Plan 3 to Plan 2 Transfer | 0.00% | 0.00% | 0.00% |
| Plan 3 2% DB Accrual | <u>0.00%</u> | <u>0.00%</u> | <u>0.00%</u> |
| Total Plan 2/3 Benefit Improvements | 0.00% | 0.13% | 0.15% |
| Net Employer State | (0.34)% | (0.92)% | (2.35)% |

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations (repeal gain-sharing - all plans):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

| Costs (in Millions): | <u>PERS</u> | <u>TRS</u> | <u>SERS</u> | <u>Total</u> |
|----------------------|--------------------|--------------------|------------------|--------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | \$0.0 | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | (\$24.4) | (\$127.5) | (\$34.0) | (\$185.9) |
| Non-General Fund | <u>(\$42.6)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$42.6)</u> |
| Total State | (\$67.0) | (\$127.5) | (\$34.0) | (\$228.5) |
| Local Government | (\$59.9) | (\$63.7) | (\$51.1) | (\$174.7) |
| Total Employer | (\$126.9) | (\$191.2) | (\$85.1) | (\$403.2) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | (\$445.6) | (\$2,251.4) | (\$838.6) | (\$3,535.6) |
| Non-General Fund | <u>(\$802.2)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$802.2)</u> |
| Total State | (\$1,247.8) | (\$2,251.4) | (\$838.6) | (\$4,337.8) |
| Local Government | (\$1,120.4) | (\$1,124.5) | (\$1,258.3) | (\$3,503.2) |
| Total Employer | (\$2,368.2) | (\$3,375.9) | (\$2,096.9) | (\$7,841.0) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |

Fiscal Budget Determinations (benefit improvements - all plans):

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

| Costs (in Millions): | <u>PERS</u> | <u>TRS</u> | <u>SERS</u> | <u>Total</u> |
|----------------------|----------------|----------------|----------------|------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | \$11.4 | \$51.9 | \$11.0 | \$74.3 |
| Non-General Fund | <u>\$19.9</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$19.9</u> |
| Total State | \$31.3 | \$51.9 | \$11.0 | \$94.2 |
| Local Government | \$28.0 | \$25.9 | \$16.5 | \$70.4 |
| Total Employer | \$59.3 | \$77.8 | \$27.5 | \$164.6 |
| Total Employee | \$0.0 | \$1.4 | \$0.7 | \$2.1 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | \$134.8 | \$691.9 | \$129.2 | \$955.9 |
| Non-General Fund | <u>\$229.9</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$229.9</u> |
| Total State | \$364.7 | \$691.9 | \$129.2 | \$1,185.8 |
| Local Government | \$325.4 | \$345.6 | \$193.7 | \$864.7 |
| Total Employer | \$690.1 | \$1,037.5 | \$322.9 | \$2,050.5 |
| Total Employee | \$0.0 | \$88.5 | \$47.6 | \$136.1 |

Fiscal Budget Determinations (all changes - all plans):

As a result of the higher (lower) required contribution rate, the increase (decrease) in funding expenditures is projected to be:

| Costs (in Millions): | <u>PERS</u> | <u>TRS</u> | <u>SERS</u> | <u>Total</u> |
|----------------------|------------------|--------------------|------------------|--------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | (\$13.0) | (\$75.6) | (\$23.0) | (\$111.6) |
| Non-General Fund | <u>(\$22.7)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$22.7)</u> |
| Total State | (\$35.7) | (\$75.6) | (\$23.0) | (\$134.3) |
| Local Government | (\$31.9) | (\$37.8) | (\$34.6) | (\$104.3) |
| Total Employer | (\$67.6) | (\$113.4) | (\$57.6) | (\$238.6) |
| Total Employee | \$0.0 | \$1.4 | \$0.7 | \$2.1 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | (\$310.8) | (\$1,559.5) | (\$709.4) | (\$2,579.7) |
| Non-General Fund | <u>(\$572.3)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$572.3)</u> |
| Total State | (\$883.1) | (\$1,559.5) | (\$709.4) | (\$3,152.0) |
| Local Government | (\$795.0) | (\$778.9) | (\$1,064.6) | (\$2,638.5) |
| Total Employer | (\$1,678.1) | (\$2,338.4) | (\$1,774.0) | (\$5,790.5) |
| Total Employee | \$0.0 | \$88.5 | \$47.6 | \$136.1 |

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. All benefit improvement costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2004 actuarial valuation report of the Teachers' Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Gain-sharing costs were based on the methods used in the 2003 valuation, adjusted for the delay in the recognition of the cost of gain-sharing.
2. As with the costs developed in the actuarial valuation, the emerging costs of the Systems will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. For the purposes of the fiscal note, any change to the Plan 1 UAAL or the Plan 1 amortization rate as the result of changes in benefit provisions of Plans 2/3 were not reflected in the fiscal impact. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain-sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. The method does not produce an unfunded liability. The normal cost is determined for the entire group rather than an individual basis.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- Normal cost; plus
- Amortization of the unfunded liability

The normal cost is determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Supplement to HB 3183

Fiscal Note

(January 26, 2006)

Fiscal Budget Determinations (Repeal plan 1 gain sharing only):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|------------------|------------------|-----------------|--------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | (\$16.1) | (\$56.1) | (\$6.0) | (\$78.2) |
| Non-General Fund | <u>(\$26.6)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$26.6)</u> |
| Total State | (\$42.7) | (\$56.1) | (\$6.0) | (\$104.8) |
| Local Government | (\$37.9) | (\$28.0) | (\$9.0) | (\$74.9) |
| Total Employer | (\$80.6) | (\$84.1) | (\$15.0) | (\$179.7) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | (\$217.4) | (\$733.1) | (\$80.9) | (\$1,031.4) |
| Non-General Fund | <u>(\$359.0)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$359.0)</u> |
| Total State | (\$576.4) | (\$733.1) | (\$80.9) | (\$1,390.4) |
| Local Government | (\$511.2) | (\$366.2) | (\$121.3) | (\$998.7) |
| Total Employer | (\$1,087.6) | (\$1,099.3) | (\$202.2) | (\$2,389.1) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 1 \$0.24 Uniform COLA Increase):

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|----------------|----------------|---------------|----------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | \$8.1 | \$28.0 | \$3.0 | \$39.1 |
| Non-General Fund | <u>\$13.3</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$13.3</u> |
| Total State | \$21.4 | \$28.0 | \$3.0 | \$52.4 |
| Local Government | \$19.0 | \$14.0 | \$4.5 | \$37.5 |
| Total Employer | \$40.4 | \$42.0 | \$7.5 | \$89.9 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | \$108.7 | \$366.8 | \$40.3 | \$515.8 |
| Non-General Fund | <u>\$179.6</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$179.6</u> |
| Total State | \$288.3 | \$366.8 | \$40.3 | \$695.4 |
| Local Government | \$255.6 | \$183.2 | \$60.5 | \$499.3 |
| Total Employer | \$543.9 | \$550.0 | \$100.8 | \$1,194.7 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 1 All Changes):

As a result of the higher (lower) required contribution rates, the increase (decrease) in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|------------------|------------------|-----------------|------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | (\$8.0) | (\$28.1) | (\$3.0) | (\$39.1) |
| Non-General Fund | <u>(\$13.3)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$13.3)</u> |
| Total State | (\$21.3) | (\$28.1) | (\$3.0) | (\$52.4) |
| Local Government | (\$18.9) | (\$14.0) | (\$4.5) | (\$37.4) |
| Total Employer | (\$40.2) | (\$42.1) | (\$7.5) | (\$89.8) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | (\$108.7) | (\$366.3) | (\$40.6) | (\$515.6) |
| Non-General Fund | <u>(\$179.4)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$179.4)</u> |
| Total State | (\$288.1) | (\$366.3) | (\$40.6) | (\$695.0) |
| Local Government | (\$255.6) | (\$183.0) | (\$60.8) | (\$499.4) |
| Total Employer | (\$543.7) | (\$549.3) | (\$101.4) | (\$1,194.4) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Repeal plan 3 gain sharing only):

As a result of the lower required contribution rates, the decrease in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|------------------|--------------------|------------------|--------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | (\$8.2) | (\$71.4) | (\$28.0) | (\$107.6) |
| Non-General Fund | <u>(\$16.0)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$16.0)</u> |
| Total State | (\$24.2) | (\$71.4) | (\$28.0) | (\$123.6) |
| Local Government | (\$22.0) | (\$35.6) | (\$42.1) | (\$99.7) |
| Total Employer | (\$46.2) | (\$107.0) | (\$70.1) | (\$223.3) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | (\$227.7) | (\$1,518.2) | (\$757.6) | (\$2,503.5) |
| Non-General Fund | <u>(\$443.1)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$443.1)</u> |
| Total State | (\$670.8) | (\$1,518.2) | (\$757.6) | (\$2,946.6) |
| Local Government | (\$609.0) | (\$758.1) | (\$1,136.9) | (\$2,504.0) |
| Total Employer | (\$1,279.8) | (\$2,276.3) | (\$1,894.5) | (\$5,450.6) |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 2/3 Choice):

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|--------------|----------------|---------------|----------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$1.8 | \$0.6 | \$2.4 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$1.8 | \$0.6 | \$2.4 |
| Local Government | \$0.0 | \$0.9 | \$0.9 | \$1.8 |
| Total Employer | \$0.0 | \$2.7 | \$1.5 | \$4.2 |
| Total Employee | \$0.0 | \$1.4 | \$0.7 | \$2.1 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$123.5 | \$38.1 | \$161.6 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$123.5 | \$38.1 | \$161.6 |
| Local Government | \$0.0 | \$61.7 | \$57.2 | \$118.9 |
| Total Employer | \$0.0 | \$185.2 | \$95.3 | \$280.5 |
| Total Employee | \$0.0 | \$88.5 | \$47.6 | \$136.1 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 3 Prospective Transfer to Plan 2):

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|--------------|---------------|--------------|---------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$3.2 | \$0.6 | \$3.8 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$3.2 | \$0.6 | \$3.8 |
| Local Government | \$0.0 | \$1.6 | \$0.8 | \$2.4 |
| Total Employer | \$0.0 | \$4.8 | \$1.4 | \$6.2 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$29.5 | \$3.5 | \$33.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$29.5 | \$3.5 | \$33.0 |
| Local Government | \$0.0 | \$14.7 | \$5.4 | \$20.1 |
| Total Employer | \$0.0 | \$44.2 | \$8.9 | \$53.1 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 3 2 Percent DB Accrual):

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|---------------|----------------|---------------|----------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | \$1.2 | \$15.3 | \$5.9 | \$22.4 |
| Non-General Fund | <u>\$2.4</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$2.4</u> |
| Total State | \$3.6 | \$15.3 | \$5.9 | \$24.8 |
| Local Government | \$3.4 | \$7.6 | \$8.9 | \$19.9 |
| Total Employer | \$7.0 | \$22.9 | \$14.8 | \$44.7 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | \$9.7 | \$139.6 | \$40.3 | \$189.6 |
| Non-General Fund | <u>\$18.9</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$18.9</u> |
| Total State | \$28.6 | \$139.6 | \$40.3 | \$208.5 |
| Local Government | \$26.0 | \$69.6 | \$60.6 | \$156.2 |
| Total Employer | \$54.6 | \$209.2 | \$100.9 | \$364.7 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 2/3 All Benefit Improvements):

As a result of the higher required contribution rates, the increase in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|----------------------|---------------|----------------|---------------|----------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | \$1.2 | \$20.3 | \$7.1 | \$28.6 |
| Non-General Fund | <u>\$2.4</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$2.4</u> |
| Total State | \$3.6 | \$20.3 | \$7.1 | \$31.0 |
| Local Government | \$3.4 | \$10.1 | \$10.6 | \$24.1 |
| Total Employer | \$7.0 | \$30.4 | \$17.7 | \$55.1 |
| Total Employee | \$0.0 | \$1.4 | \$0.7 | \$2.1 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | \$9.7 | \$292.6 | \$81.9 | \$384.2 |
| Non-General Fund | <u>\$18.9</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$18.9</u> |
| Total State | \$28.6 | \$292.6 | \$81.9 | \$403.1 |
| Local Government | \$26.0 | \$146.0 | \$123.2 | \$295.2 |
| Total Employer | \$54.6 | \$438.6 | \$205.1 | \$698.3 |
| Total Employee | \$0.0 | \$88.5 | \$47.6 | \$136.1 |

OFFICE OF THE STATE ACTUARY

Fiscal Budget Determinations (Plan 2/3 All Changes):

As a result of the higher (lower) required contribution rates, the increase (decrease) in funding expenditures is projected to be:

| Costs (in Millions): | <u>PERS</u> | <u>TRS</u> | <u>SERS</u> | <u>Total</u> |
|----------------------|------------------|--------------------|------------------|--------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Non-General Fund | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$0.0</u> |
| Total State | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Local Government | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employer | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Total Employee | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | (\$7.0) | (\$51.1) | (\$20.9) | (\$79.0) |
| Non-General Fund | <u>(\$13.6)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$13.6)</u> |
| Total State | (\$20.6) | (\$51.1) | (\$20.9) | (\$92.6) |
| Local Government | (\$18.6) | (\$25.5) | (\$31.5) | (\$75.6) |
| Total Employer | (\$39.2) | (\$76.6) | (\$52.4) | (\$168.2) |
| Total Employee | \$0.0 | \$1.4 | \$0.7 | \$2.1 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | (\$218.0) | (\$1,225.6) | (\$675.7) | (\$2,119.3) |
| Non-General Fund | <u>(\$424.2)</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>(\$424.2)</u> |
| Total State | (\$642.2) | (\$1,225.6) | (\$675.7) | (\$2,543.5) |
| Local Government | (\$583.0) | (\$612.1) | (\$1,013.7) | (\$2,208.8) |
| Total Employer | (\$1,225.2) | (\$1,837.7) | (\$1,689.4) | (\$4,752.3) |
| Total Employee | \$0.0 | \$88.5 | \$47.6 | \$136.1 |

Select Committee on Pension Policy

Rule of 90 Proposal

(November 29, 2004)

Issue

The issue before the full SCPP is whether to propose legislation to provide unreduced retirement to vested members of the TRS, SERS and PERS Plans 2/3 for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more.

Staff

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Members Impacted

It is estimated that the following members would be impacted by this bill: 82,259 out of 117,262 active members in PERS 2; 13,497 out of 17,548 active members in PERS 3; 5,209 out of 7,637 active members in TRS 2; 37,310 out of 47,263 active members in TRS 3; 12,455 out of 21,504 active members in SERS 2; and 16,167 out of 27,710 active members in SRS 3.

Current Situation

Currently, in the PERS, TRS and SERS Plans 2/3, a vested member is eligible for either normal, early or alternate early retirement. The early retirement provisions involve reduced benefits. Normal retirement is a full, unreduced benefit. In the Plans 2 normal retirement is currently available to any member who is at least age sixty-five and who has completed five service credit years. In the Plans 3 normal retirement (for the defined benefit portion of the plan) is currently available to any member who is at least age 65 and who has completed ten service credit years, or who has completed five service years including twelve service credit months after attaining age 54. This bill would

provide an unreduced retirement benefit to any vested Plan 2/3 member who satisfies the rule of 90.

Proposal

A "rule of 90" would allow vested members to receive an unreduced retirement benefit when they reach any combination of age and service that totals ninety. For example, an employee who became a plan member at age 20 could retire at age 55 with 35 years of service. Similarly, a plan member who began working at age 30 could retire at age 60 with a full benefit. Those who become plan members at age 40 or later would not benefit from the rule of 90, as there would be no combination of age and service that could result in a full retirement benefit earlier than age 65, the current normal retirement age for the Plans 2/3.

The following table illustrates the operation of a rule of 90 for any retirement system:

| Illustration of Rule of 90 | | | |
|-----------------------------------|-------------------------|-------------------|----------------------------------|
| Age of Hire | Years of Service | Retire Age | Age Plus Years of Service |
| 20 | 35 | 55 | 90 |
| 22 | 34 | 56 | 90 |
| 24 | 33 | 57 | 90 |
| 26 | 32 | 58 | 90 |
| 28 | 31 | 59 | 90 |
| 30 | 30 | 60 | 90 |
| 32 | 29 | 61 | 90 |
| 24 | 28 | 62 | 90 |
| 36 | 27 | 63 | 90 |
| 38 | 26 | 64 | 90 |
| 40 | 25 | 65 | 90 |

Members of the TRS would benefit more from a Rule of 90 than members of PERS or SERS because they have lower entry ages and longer service years.

| Relative Value of Rule of 90 Among Retirement Systems | | | | |
|--|------------------------|----------------------------|--------------------------------|-----------------------------|
| System | Average Age | Average Service | Average Age at Hire | "Rule of 90" Age |
| TRS | 44 | 11 | 33 | 61.5 |
| PERS | 45 | 10 | 35 | 62.5 |
| SERS | 46 | 7 | 39 | 64.5 |

Policy Analysis

A rule of 90 would move toward a more career-based retirement benefit for the Plans 2/3 in that younger workers would be rewarded for long-term public service by receiving an unreduced retirement benefit prior to the time at which they would normally be expected to leave the workforce. The cost of a life-time benefit for such individuals would be higher because the benefit would be paid over a longer period of time.

It should be noted that the SCPP is also considering a modified rule of 90 as part of a Plan 3 gain-sharing trade-off proposal. This modified rule of 90 would apply only to vested members who are at least age sixty. Under the modified rule, the unreduced retirement benefit would be available only for service credit earned after the effective date of the bill (July 1, 2007). The portion of the benefit attributed to service credit earned before the effective date of the bill would be subject to the usual required reductions for early retirement. The modifications to the rule of 90 found in the Plan 3 gain-sharing trade-off proposal have been included to lower the cost of the rule of 90. Also, the minimum age of 60 creates less departure from the age-based designs of the Plans 2/3.

For additional policy analysis, see the Age 65 Retirement Options report dated October 12, 2004 and the Age 65 Retirement Report dated September 1, 2004.

Procedural Posture/Executive Committee Recommendation

As the result of the September 7, 2004 briefing of the Select Committee on Pension Policy (SCPP) on the issue of Age 65 Retirement, an "age 65 subgroup" was formed to make specific recommendations to the SCPP. Last month the Age 65 subgroup recommended to the Executive Committee that the SCPP consider legislation to provide unreduced retirement according to a "Rule of 90"

for members of the TRS, SERS and PERS Plans 2/3. On November 9, 2004, the Executive Committee directed staff to prepare a bill draft and fiscal note on the Rule of 90 proposal for the December meeting.

Bill (Draft)

The bill draft for this proposal is attached.

Fiscal Note (Draft)

The fiscal note for this proposal is attached.

SENATE BILL 6445

State of Washington

59th Legislature

2006 Regular Session

By Senators Fraser, Pridemore and Franklin; by request of Select Committee on Pension Policy

Read first time 01/12/2006. Referred to Committee on Ways & Means.

1 AN ACT Relating to providing unreduced retirement benefits in the
2 plans 2 and 3 of the public employees' retirement system, the teachers'
3 retirement system, and the school employees' retirement system;
4 amending RCW 41.40.630, 41.40.820, 41.32.765, 41.32.875, 41.35.420, and
5 41.35.680; and providing an effective date.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

7 **Sec. 1.** RCW 41.40.630 and 2000 c 247 s 901 are each amended to
8 read as follows:

9 (1) NORMAL RETIREMENT. Any member with at least five service
10 credit years who has attained at least age sixty-five shall be eligible
11 to retire and to receive a retirement allowance computed according to
12 the provisions of RCW 41.40.620.

13 (2) UNREDUCED RETIREMENT. Any member who has completed at least
14 five service credit years and for whom the sum of the number of years
15 of the member's age and the number of years of the member's service
16 credit equals ninety or more shall be eligible to retire and receive a
17 retirement allowance computed according to the provisions of RCW
18 41.40.620.

1 (3) EARLY RETIREMENT. Any member who has completed at least twenty
2 service credit years and has attained age fifty-five shall be eligible
3 to retire and to receive a retirement allowance computed according to
4 the provisions of RCW 41.40.620, except that a member retiring pursuant
5 to this subsection shall have the retirement allowance actuarially
6 reduced to reflect the difference in the number of years between age at
7 retirement and the attainment of age sixty-five.

8 ((+3+)) (4) ALTERNATE EARLY RETIREMENT. Any member who has
9 completed at least thirty service credit years and has attained age
10 fifty-five shall be eligible to retire and to receive a retirement
11 allowance computed according to the provisions of RCW 41.40.620, except
12 that a member retiring pursuant to this subsection shall have the
13 retirement allowance reduced by three percent per year to reflect the
14 difference in the number of years between age at retirement and the
15 attainment of age sixty-five.

16 **Sec. 2.** RCW 41.40.820 and 2000 c 247 s 309 are each amended to
17 read as follows:

18 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
19 and who has:

20 (a) Completed ten service credit years; or

21 (b) Completed five service credit years, including twelve service
22 credit months after attaining age fifty-four; or

23 (c) Completed five service credit years by the transfer payment
24 date specified in RCW 41.40.795, under the public employees' retirement
25 system plan 2 and who transferred to plan 3 under RCW 41.40.795;
26 shall be eligible to retire and to receive a retirement allowance
27 computed according to the provisions of RCW 41.40.790.

28 (2) UNREDUCED RETIREMENT. Any member who has completed the number
29 of service credit years required in subsection (1) of this section and
30 for whom the sum of the number of years of the member's age and the
31 number of years of the member's service credit equals ninety or more
32 shall be eligible to retire and receive a retirement allowance computed
33 according to the provisions of RCW 41.40.790.

34 (3) EARLY RETIREMENT. Any member who has attained at least age
35 fifty-five and has completed at least ten years of service shall be
36 eligible to retire and to receive a retirement allowance computed
37 according to the provisions of RCW 41.40.790, except that a member

1 retiring pursuant to this subsection shall have the retirement
2 allowance actuarially reduced to reflect the difference in the number
3 of years between age at retirement and the attainment of age sixty-
4 five.

5 ~~((+3+))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
6 completed at least thirty service credit years and has attained age
7 fifty-five shall be eligible to retire and to receive a retirement
8 allowance computed according to the provisions of RCW 41.40.790, except
9 that a member retiring pursuant to this subsection shall have the
10 retirement allowance reduced by three percent per year to reflect the
11 difference in the number of years between age at retirement and the
12 attainment of age sixty-five.

13 **Sec. 3.** RCW 41.32.765 and 2000 c 247 s 902 are each amended to
14 read as follows:

15 (1) NORMAL RETIREMENT. Any member with at least five service
16 credit years of service who has attained at least age sixty-five shall
17 be eligible to retire and to receive a retirement allowance computed
18 according to the provisions of RCW 41.32.760.

19 (2) UNREDUCED RETIREMENT. Any member who has completed at least
20 five service credit years and for whom the sum of the number of years
21 of the member's age and the number of years of the member's service
22 credit equals ninety or more shall be eligible to retire and receive a
23 retirement allowance computed according to the provisions of RCW
24 41.32.760.

25 (3) EARLY RETIREMENT. Any member who has completed at least twenty
26 service credit years of service who has attained at least age fifty-
27 five shall be eligible to retire and to receive a retirement allowance
28 computed according to the provisions of RCW 41.32.760, except that a
29 member retiring pursuant to this subsection shall have the retirement
30 allowance actuarially reduced to reflect the difference in the number
31 of years between age at retirement and the attainment of age sixty-
32 five.

33 ~~((+3+))~~ (4) ALTERNATE EARLY RETIREMENT. Any member who has
34 completed at least thirty service credit years and has attained age
35 fifty-five shall be eligible to retire and to receive a retirement
36 allowance computed according to the provisions of RCW 41.32.760, except
37 that a member retiring pursuant to this subsection shall have the

1 retirement allowance reduced by three percent per year to reflect the
2 difference in the number of years between age at retirement and the
3 attainment of age sixty-five.

4 **Sec. 4.** RCW 41.32.875 and 2000 c 247 s 903 are each amended to
5 read as follows:

6 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
7 and who has:

8 (a) Completed ten service credit years; or

9 (b) Completed five service credit years, including twelve service
10 credit months after attaining age fifty-four; or

11 (c) Completed five service credit years by July 1, 1996, under plan
12 2 and who transferred to plan 3 under RCW 41.32.817;
13 shall be eligible to retire and to receive a retirement allowance
14 computed according to the provisions of RCW 41.32.840.

15 (2) UNREDUCED RETIREMENT. Any member who has completed the number
16 of service credit years required in subsection (1) of this section and
17 for whom the sum of the number of years of the member's age and the
18 number of years of the member's service credit equals ninety or more
19 shall be eligible to retire and receive a retirement allowance computed
20 according to the provisions of RCW 41.32.840.

21 (3) EARLY RETIREMENT. Any member who has attained at least age
22 fifty-five and has completed at least ten years of service shall be
23 eligible to retire and to receive a retirement allowance computed
24 according to the provisions of RCW 41.32.840, except that a member
25 retiring pursuant to this subsection shall have the retirement
26 allowance actuarially reduced to reflect the difference in the number
27 of years between age at retirement and the attainment of age sixty-
28 five.

29 (~~((3))~~) (4) ALTERNATE EARLY RETIREMENT. Any member who has
30 completed at least thirty service credit years and has attained age
31 fifty-five shall be eligible to retire and to receive a retirement
32 allowance computed according to the provisions of RCW 41.32.840, except
33 that a member retiring pursuant to this subsection shall have the
34 retirement allowance reduced by three percent per year to reflect the
35 difference in the number of years between age at retirement and the
36 attainment of age sixty-five.

1 **Sec. 5.** RCW 41.35.420 and 2000 c 247 s 905 are each amended to
2 read as follows:

3 (1) NORMAL RETIREMENT. Any member with at least five service
4 credit years who has attained at least age sixty-five shall be eligible
5 to retire and to receive a retirement allowance computed according to
6 the provisions of RCW 41.35.400.

7 (2) UNREDUCED RETIREMENT. Any member who has completed at least
8 five service credit years and for whom the sum of the number of years
9 of the member's age and the number of years of the member's service
10 credit equals ninety or more shall be eligible to retire and receive a
11 retirement allowance computed according to the provisions of RCW
12 41.35.400.

13 (3) EARLY RETIREMENT. Any member who has completed at least twenty
14 service credit years and has attained age fifty-five shall be eligible
15 to retire and to receive a retirement allowance computed according to
16 the provisions of RCW 41.35.400, except that a member retiring pursuant
17 to this subsection shall have the retirement allowance actuarially
18 reduced to reflect the difference in the number of years between age at
19 retirement and the attainment of age sixty-five.

20 (~~((+3))~~) (4) ALTERNATE EARLY RETIREMENT. Any member who has
21 completed at least thirty service credit years and has attained age
22 fifty-five shall be eligible to retire and to receive a retirement
23 allowance computed according to the provisions of RCW 41.35.400, except
24 that a member retiring pursuant to this subsection shall have the
25 retirement allowance reduced by three percent per year to reflect the
26 difference in the number of years between age at retirement and the
27 attainment of age sixty-five.

28 **Sec. 6.** RCW 41.35.680 and 2000 c 247 s 906 are each amended to
29 read as follows:

30 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five
31 and who has:

32 (a) Completed ten service credit years; or

33 (b) Completed five service credit years, including twelve service
34 credit months after attaining age fifty-four; or

35 (c) Completed five service credit years by September 1, 2000, under
36 the public employees' retirement system plan 2 and who transferred to
37 plan 3 under RCW 41.35.510;

1 shall be eligible to retire and to receive a retirement allowance
2 computed according to the provisions of RCW 41.35.620.

3 (2) UNREDUCED RETIREMENT. Any member who has completed the number
4 of service credit years required in subsection (1) of this section and
5 for whom the sum of the number of years of the member's age and the
6 number of years of the member's service credit equals ninety or more
7 shall be eligible to retire and receive a retirement allowance computed
8 according to the provisions of RCW 41.35.620.

9 (3) EARLY RETIREMENT. Any member who has attained at least age
10 fifty-five and has completed at least ten years of service shall be
11 eligible to retire and to receive a retirement allowance computed
12 according to the provisions of RCW 41.35.620, except that a member
13 retiring pursuant to this subsection shall have the retirement
14 allowance actuarially reduced to reflect the difference in the number
15 of years between age at retirement and the attainment of age sixty-
16 five.

17 ((+3+)) (4) ALTERNATE EARLY RETIREMENT. Any member who has
18 completed at least thirty service credit years and has attained age
19 fifty-five shall be eligible to retire and to receive a retirement
20 allowance computed according to the provisions of RCW 41.35.620, except
21 that a member retiring pursuant to this subsection shall have the
22 retirement allowance reduced by three percent per year to reflect the
23 difference in the number of years between age at retirement and the
24 attainment of age sixty-five.

25 NEW SECTION. **Sec. 7.** This act takes effect July 1, 2006.

--- END ---

FISCAL NOTE

REQUEST NO.

| | | | |
|-----------------------------|-------|---------|-----------------|
| RESPONDING AGENCY: | CODE: | DATE: | BILL NUMBER: |
| Office of the State Actuary | 035 | 1/24/06 | SB 6445/HB 2679 |

SUMMARY OF BILL:

This bill impacts the Plans 2 and 3 of the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS) by offering unreduced retirement to any vested member for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more ("rule of 90").

Effective Date: July 1, 2006

CURRENT SITUATION:

Currently, in the PERS, TRS and SERS Plans 2/3, a member is eligible for either normal, early or alternate early retirement. The early retirement provisions involve reduced benefits. A full or unreduced benefit is provided at normal retirement.

In the Plans 2, normal retirement is available to those who have earned at least five years of service credit and who have attained age 65. This bill would add another category of retirement that involves a full or "unreduced" benefit. It would apply to any vested member for whom the sum of the number of years of the member's age and the number of years of the member's service credit equals ninety or more ("rule of 90").

In the Plans 3, normal retirement is currently available to any member who is at least age 65 and who has completed ten service credit years, or who has completed five service years including twelve service credit months after attaining age 54. This bill would provide an unreduced retirement benefit to any vested Plan 3 member who satisfies the rule of 90.

MEMBERS IMPACTED:

This bill would provide a benefit improvement to active members hired before age 40. Members hired after age 40 would not satisfy the rule of 90 until after attaining age 65.

| | PERS 2 | PERS 3 | TRS 2 | TRS 3 | SERS 2 | SERS 3 |
|-----------------------------|---------|--------|-------|--------|--------|--------|
| Number of Affected - Active | 83,165 | 15,023 | 5,184 | 38,873 | 11,988 | 16,629 |
| Total Active Members | 118,572 | 19,855 | 7,470 | 49,302 | 20,424 | 29,430 |

The following table summarizes how the bill would impact members based on hire age:

| | Plan 2 | Plan 3 |
|---|---|-----------------------------|
| Active Members hired before age 40 | Lowers retirement age and increases contribution rate | Lowers retirement age |
| Active Members hired at age 40 or later | No change to retirement age and increases contribution rate | No change to retirement age |

This bill would tie the age for unreduced benefits to hire age, as shown in the following table:

| Hire Age | Service at Retirement Age | Rule of 90 Retirement Age |
|----------|---------------------------|---------------------------|
| 16 | 37 | 53 |
| 18 | 36 | 54 |
| 20 | 35 | 55 |
| 22 | 34 | 56 |
| 24 | 33 | 57 |
| 26 | 32 | 58 |
| 28 | 31 | 59 |
| 30 | 30 | 60 |
| 32 | 29 | 61 |
| 34 | 28 | 62 |
| 36 | 27 | 63 |
| 38 | 26 | 64 |
| 40 | 25 | 65 |

For example, a member hired at age 20 with continuous service until retirement would satisfy the rule of 90 at age 55 with 30 years of service. The age at which unreduced retirement benefits are available would be lowered from age 65 by one year for every two years that the hire age preceded age 40.

The bill would have the greatest impact on current members with long service and low ages at hire. For the members impacted by the bill, about 53% of the value of the benefit improvement would be attributable to service prior to the effective date, and 47% of the value would be attributable to service after the effective date.

For a member impacted by this bill, the increase in benefits would be the removal of benefit reduction for early retirement without the Rule of 90. For example, a member retiring at age 60 with 30 years of service would be entitled to an unreduced benefit instead of a benefit with a 15% reduction.

This bill would also increase the number of retirees eligible for subsidized medical benefits from the Public Employees' Benefit Board (PEBB).

The table below shows the number of new non-medicare eligible retirees by year we expect under this bill:

| New Retirements Under Rule of 90 by Year | | | | | | |
|---|------------|------------|------------|------------|------------|------------|
| <i>Not Eligible for Medicare</i> | | | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| TRS | 30 | 46 | 81 | 123 | 190 | 286 |
| PERS | 86 | 125 | 193 | 299 | 426 | 560 |
| SERS | 32 | 41 | 62 | 88 | 113 | 143 |
| Total | 148 | 212 | 336 | 510 | 729 | 989 |

Note: 50% of PERS retirements are from State agencies.

ASSUMPTIONS:

We assumed that there would be an increase in retirement rates due to the rule of 90. The additional rates or "kickers" are provided at the end of this fiscal note.

FISCAL IMPACT:

Description:

The liabilities and rates do not include the value of future gain-sharing benefits. Chapter 370, Laws of 2005 delayed recognition of the cost of future gain-sharing benefits until the 2007-2009 biennium.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

| <i>(Dollars in Millions)</i> | | Current | Increase | Total |
|--|-----------------|------------|----------|------------|
| Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members) | PERS 2/3 | \$ 15,280 | \$ 815 | \$ 16,095 |
| | TRS 2/3 | \$ 5,256 | \$ 386 | \$ 5,642 |
| | SERS 2/3 | \$ 2,126 | \$ 83 | \$ 2,209 |
| Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024) | PERS 1 | N/A | N/A | N/A |
| | TRS 1 | N/A | N/A | N/A |
| Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service) | PERS 2/3 | \$ (2,927) | \$ 446 | \$ (2,481) |
| | TRS 2/3 | \$ (1,427) | \$ 194 | \$ (1,233) |
| | SERS 2/3 | \$ (439) | \$ 49 | \$ (390) |

Increase in Contribution Rates: (Effective 9/1/06)**Current Members**

Employee (Plan 2 only)

Employer State

PERS**TRS****SERS**

0.73%

0.73%

1.00%

1.00%

0.57%

0.57%

New Entrants*

Employee (Plan 2 only)

Employer State

0.27%

0.27%

N/A

0.53%

N/A

0.22%

**Rate change applied to future new entrant payroll and used for fiscal budget determinations only. A single supplemental rate increase, equal to the increase for current members, would apply initially for all members or employers.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

| Costs (in Millions): | PERS | TRS | SERS | Total |
|-----------------------------|----------------|----------------|---------------|------------------|
| 2006-2007 | | | | |
| State: | | | | |
| General Fund | \$7.2 | \$24.6 | \$2.6 | \$34.4 |
| Non-General Fund | <u>\$14.0</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$14.0</u> |
| Total State | \$21.2 | \$24.6 | \$2.6 | \$48.4 |
| Local Government | \$19.3 | \$13.5 | \$3.9 | \$36.7 |
| Total Employer | \$40.5 | \$38.1 | \$6.5 | \$85.1 |
| Total Employee | \$31.2 | \$4.2 | \$2.2 | \$37.6 |
| 2007-2009 | | | | |
| State: | | | | |
| General Fund | \$17.7 | \$53.3 | \$6.1 | \$77.1 |
| Non-General Fund | <u>\$34.4</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$34.4</u> |
| Total State | \$52.1 | \$53.3 | \$6.1 | \$111.5 |
| Local Government | \$47.3 | \$26.6 | \$9.2 | \$83.1 |
| Total Employer | \$99.4 | \$79.9 | \$15.3 | \$194.6 |
| Total Employee | \$76.2 | \$8.4 | \$4.9 | \$89.5 |
| 2006-2031 | | | | |
| State: | | | | |
| General Fund | \$274.2 | \$948.5 | \$92.9 | \$1,315.6 |
| Non-General Fund | <u>\$533.6</u> | <u>\$0.0</u> | <u>\$0.0</u> | <u>\$533.6</u> |
| Total State | \$807.8 | \$948.5 | \$92.9 | \$1,849.2 |
| Local Government | \$733.1 | \$474.7 | \$139.4 | \$1,347.2 |
| Total Employer | \$1,540.9 | \$1,423.2 | \$232.3 | \$3,196.4 |
| Total Employee | \$1,002.8 | \$56.6 | \$34.5 | \$1,093.9 |

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Teachers' Retirement System, School Employees' Retirement System, and Public Employees' Retirement System. Fiscal Budget Determinations were based on 2004 data. This excludes the cost of future gain-sharing.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

| Rule of 90 | | | | | | |
|--|--------------|----------------|--------------|----------------|-------------|---------------|
| Kicker Added to Retirement Probability | | | | | | |
| | PERS Male | PERS Female | SERS Male | SERS Female | TRS Male | TRS Female |
| Age | | | | | | |
| 55 | 0.35 | 0.29 | 0.30 | 0.30 | 0.30 | 0.30 |
| 56 | 0.35 | 0.29 | 0.30 | 0.30 | 0.30 | 0.30 |
| 57 | 0.35 | 0.29 | 0.30 | 0.30 | 0.30 | 0.30 |
| 58 | 0.29 | 0.22 | 0.30 | 0.30 | 0.30 | 0.30 |
| 59 | 0.29 | 0.22 | 0.30 | 0.30 | 0.30 | 0.30 |
| 60 | 0.29 | 0.22 | 0.30 | 0.30 | 0.30 | 0.30 |
| 61 | 0.29 | 0.22 | 0.25 | 0.30 | 0.30 | 0.30 |
| 62 | 0.29 | 0.16 | 0.25 | 0.20 | 0.30 | 0.20 |
| 63 | 0.11 | 0.16 | 0.25 | 0.20 | 0.25 | 0.20 |
| 64 | 0.11 | 0.16 | 0.25 | 0.20 | 0.25 | 0.20 |

The kicker (additional retirement rate) is added to the retirement probability at the age when a member is first eligible for the Rule of 90. For each year after the year first eligible, 25% of the kicker is added.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2006 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 could change the UAAL in Plan 1. For the purposes of this fiscal note, changes to the Plan 1 UAAL and Plan 1 amortization rates that might result from changes in Plan 2/3 benefits were not reflected in the fiscal impact. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.
8. Entry age normal cost rate increases are used to determine the increase in funding expenditures for future new entrants. Aggregate rate increases are used to calculate the increase in funding expenditures for current plan members. Benefit improvement rate increases are based on rates that exclude the cost of gain sharing.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Actuarial accrued liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

Purpose of this Document

The purpose of this communication is to provide policy makers with the likelihood of an extraordinary investment gain, as defined under Chapters 41.31 and 41.31A RCW, for 2008. It is intended to assist policy decision makers as they assess options for addressing future gain-sharing liabilities and should not be used for other purposes. It is not intended as a financial planning tool for retirement system members.

This document summarizes calculations that require assumptions about future investment performance. The assumptions and methods used in this document are reasonable and appropriate for the primary purpose stated above. The use of another set of assumptions and methods, however, could also be reasonable and could result in materially different results.

This document consists of four pages and should be used in its entirety. The partial use and/or distribution of this document could be misleading to other parties.

The results presented in this document will change as projected investment return is replaced with actual investment performance. The reader should exercise caution when applying the results of this document beyond the date listed above.

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2008 Gain-Sharing Projections

Gain-Sharing Background

Gain-sharing benefits apply to PERS, TRS, and SERS Plans 1 and Plans 3. The benefits can be triggered if certain conditions are met on June 30 of odd-numbered years.

Gain-sharing benefits will be triggered on June 30, 2007, and payable on January 1, 2008, if the four-year average compound annual investment return exceeds 10 percent. The gain-sharing benefits are based on half the excess return over 10 percent.

Assets applicable to Plan 3 gain-sharing benefits are the assets attributable to Plan 3 participants. These attributable assets are the total assets in Plans 2 and 3, multiplied by the ratio of service in Plan 3 over service in Plans 2 and 3.

Gain-sharing benefits in Plan 1 are granted as an increase to the Uniform Increase amount. Gain-sharing benefits in Plan 3 are granted as a distribution from the defined benefit plan to members' defined contribution accounts.

Estimated Investment Returns for 2008 Gain-Sharing

The 2008 gain-sharing formula will consider the investment returns over the four years ending on June 30, 2007. The applicable returns to June 30, 2006, are 16.7 percent for the year ending June 30, 2004, 13.3 percent for the year ending June 30, 2005, and 16.7 percent for the year ending June 30, 2006. The accumulated return is 54.4 percent.

In order to trigger gain-sharing, investment returns would have to average 10 percent for each of the four years to June 30, 2007, for a total return of 46.4 percent. The current accumulated return of 54.4 percent exceeds the four-year accumulated return of 46.4 percent required for gain-sharing.

The table below uses investment return simulations from the Washington State Investment Board (WSIB). It shows the expected future annual rate of return over the next fourteen months for each tenth percentile (the probability of getting a value less than that indicated, based on the distribution of simulated returns). This is combined with past actual returns for three years to estimate the total four-year return to June 30, 2007. The compound average annual rate of return is calculated, along with the excess over 10 percent, and half the excess over 10 percent.

2006 WSIB Capital Market Assumptions

| Investment Return Percentiles | Expected Future Annual Rate of Return | Total Four-Year Return to 6/30/07 | Average Annual Rate of Return | Excess, if any, Over 10% | ½ Excess, if any, Over 10% |
|-------------------------------|---------------------------------------|-----------------------------------|-------------------------------|--------------------------|----------------------------|
| 95% | 31.9% | 103.6% | 19.4% | 9.4% | 4.7% |
| 85% | 22.2% | 88.7% | 17.2% | 7.2% | 3.6% |
| 75% | 16.8% | 80.3% | 15.9% | 5.9% | 2.9% |
| 65% | 12.7% | 73.9% | 14.8% | 4.8% | 2.4% |
| 55% | 9.1% | 68.4% | 13.9% | 3.9% | 2.0% |
| 45% | 5.7% | 63.2% | 13.0% | 3.0% | 1.5% |
| 35% | 2.3% | 58.0% | 12.1% | 2.1% | 1.1% |
| 25% | -1.3% | 52.4% | 11.1% | 1.1% | 0.6% |
| 15% | -5.7% | 45.6% | 9.9% | 0.0% | 0.0% |
| 5% | -12.6% | 35.0% | 7.8% | 0.0% | 0.0% |
| Mean Value | 8.2% | 67.1% | 13.7% | 3.7% | 1.8% |

The 95th percentile is an annual rate of return of 31.9%. This is interpreted as a 95% probability of getting a rate less than 31.9%, or a 5% probability of getting a rate more than 31.9% - based on the distribution of simulated returns.

Possible Gain-Sharing Benefits in 2008

The benefits percentile table below lists half the excess over 10 percent returns applicable to the gain-sharing calculation. This is multiplied by the assets attributable to gain-sharing to get the value of the gain-sharing benefits.

The Plan 1 value was used to calculate additional Plan 1 benefits. These benefits are granted in the form of an additional Uniform Increase amount.

The Plan 3 value was used to calculate the Plan 3 benefits. The benefit is defined as a dollar amount per year of service to be transferred from the defined benefit plan to members' defined contribution accounts.

| Benefit Percentiles | ½ Excess, if any, Over 10% | Total Gain-Sharing Value* | Plan 1 Value | Plan 3 Value | Plan 1 Benefits (Uniform Inc.) | Plan 3 Benefits (\$/year of service) |
|---------------------|----------------------------|---------------------------|---------------|---------------|--------------------------------|--------------------------------------|
| (\$ in Millions) | | | | | | |
| 95% | 4.7% | \$ 1,159 | \$ 856 | \$ 303 | \$ 0.43 | \$ 310 |
| 85% | 3.6% | \$ 883 | \$ 652 | \$ 231 | \$ 0.33 | \$ 236 |
| 75% | 2.9% | \$ 722 | \$ 533 | \$ 189 | \$ 0.27 | \$ 193 |
| 65% | 2.4% | \$ 594 | \$ 439 | \$ 155 | \$ 0.22 | \$ 159 |
| 55% | 2.0% | \$ 480 | \$ 355 | \$ 126 | \$ 0.18 | \$ 128 |
| 45% | 1.5% | \$ 371 | \$ 274 | \$ 97 | \$ 0.14 | \$ 99 |
| 35% | 1.1% | \$ 259 | \$ 191 | \$ 68 | \$ 0.10 | \$ 69 |
| 25% | 0.6% | \$ 135 | \$ 100 | \$ 35 | \$ 0.05 | \$ 36 |
| 15% | 0.0% | \$ 0 | \$ 0 | \$ 0 | \$ 0.00 | \$ 0 |
| 5% | 0.0% | \$ 0 | \$ 0 | \$ 0 | \$ 0.00 | \$ 0 |
| Mean Value | 1.8% | \$ 453 | \$ 334 | \$ 118 | \$ 0.17 | \$ 121 |

*Estimate based on market value of assets at September 30, 2005.

| Market Value of Assets 9/30/05 | Total Assets | Gain-Sharing Assets | Plan 1 Assets | Plan 3 Assets |
|--------------------------------|------------------|---------------------|------------------|-----------------|
| (\$ in Millions) | | | | |
| PERS 1 | \$ 9,837 | \$ 9,837 | \$ 9,837 | |
| TRS 1 | \$ 8,278 | \$ 8,278 | \$ 8,278 | |
| PERS 2/3 | \$ 12,704 | \$ 4,294 | | \$ 1,269 |
| TRS 2/3 | \$ 4,474 | \$ 1,512 | | \$ 3,384 |
| SERS2/3 | \$ 1,803 | \$ 609 | | \$ 1,762 |
| Total | \$ 37,097 | \$ 24,530 | \$ 18,115 | \$ 6,415 |

Assets applicable to Plan 3 gain-sharing benefits are the assets attributable to Plans 3 participants. These attributable assets are the total assets in Plans 2 and 3, multiplied by the ratio of service in Plan 3 over service in Plans 2 and 3.

All Plan 1 assets are attributable to Plan 1 gain-sharing.

The asset and service data was obtained from the preliminary results of the 2005 actuarial valuation of the plans.

Appendix

Data, Assumptions, and Methods

The asset and service data was obtained from the preliminary results of the 2005 actuarial valuation of the plans.

Investment returns for the period July 1, 2003, to June 30, 2006, were obtained from the WSIB.

The simulated investment returns use the 2006 capital market assumptions provided by the WSIB.

2006 WSIB Capital Market Assumptions

| Investment Type | Expected Returns | Standard Deviation | Current Portfolio | |
|-------------------------|------------------|--------------------|-------------------|-----------------|
| | | | Target Allocation | Expected Return |
| U.S. Equity | 8.50% | 17.50% | 23% | 2.0% |
| Non-U.S. Equity | 8.50% | 19.00% | 23% | 2.0% |
| Fixed Income | 5.00% | 5.00% | 25% | 1.3% |
| Private Equity | 12.50% | 33.00% | 17% | 2.1% |
| Real Estate | 7.75% | 14.00% | 12% | 0.9% |
| Cash | 3.25% | 1.50% | 0% | 0.0% |
| TIPS | 4.75% | 5.00% | 0% | 0.0% |
| Long Duration FI | 5.50% | 7.50% | 0% | 0.0% |
| Total | | | 100% | 8.2% |

The expected future annual rate of return over the next twelve months is shown for each tenth percentile from the fifth percentile to the ninety-fifth percentile. The percentile is the probability of getting a value less than that indicated. The ninety-fifth percentile is an annual rate of return of 31.9 percent. This is interpreted as a 95 percent probability of getting a rate less than 31.9 percent, or a 5 percent probability of getting a rate more than 31.9 percent - based on the distribution of simulated returns.